

# THE FIRST NATIONAL BANK OF BOSTON

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## HEARINGS BEFORE THE SUBCOMMITTEE ON FINANCIAL INSTITUTIONS SUPERVISION, REGULATION AND INSURANCE OF THE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

FIRST SESSION

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APRIL 3 AND 4, 1985

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**Serial No. 99-18**

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Printed for the use of the Committee on Banking, Finance and Urban Affairs







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RICHARD L. STILL, *Subcommittee Staff Director*



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# THE FIRST NATIONAL BANK OF BOSTON

WEDNESDAY, APRIL 3, 1985

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS  
SUPERVISION, REGULATION AND INSURANCE,  
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,  
Washington, DC.

The subcommittee met at 10:05 a.m., in room 2128, Rayburn House Office Building, Hon. Fernand J. St Germain (chairman of the subcommittee) presiding.

Present: Chairman St Germain; Representatives Annunzio, LaFalce, Vento, Schumer, Frank, Cooper, Roemer, Kaptur, Nelson, Kanjorski, Gordon, Manton, Wylie, McKinney, McCollum, Wortley, Dreier, Roukema, and Roth.

Chairman ST GERMAIN. The subcommittee will come to order.

Fourteen years ago, the Committee on Banking attempted to draft the banking industry and its Federal regulators for a war on organized crime, drug traffickers, tax evaders, and an assortment of white collar frauds. It is obvious that some have managed to dodge that draft.

If the *Bank of Boston* case is indicative of a cross section of compliance and enforcement, then we are seeing an industry and a regulatory structure render a major law enforcement tool a virtual nullity.

On February 7, Bank of Boston pleaded guilty to knowingly and willfully failing to comply with the Bank Secrecy Act in connection with the transfer of \$1.22 billion—that is a lot of money—between the United States and Europe.

Outside the courtroom, the ball was handed swiftly to the public relations experts, and the plea of knowingly and willfully became an internal administrative glitch, a systems failure.

The Federal regulations were not noticed, or if they were noticed they were misinterpreted. In the court of public opinion, the bank had now shifted its plea to "We did not know."

After reading hundreds of pages of documents and staff interviews, I am becoming convinced that a more accurate plea would have been "We did not care."

This cavalier attitude pervades this entire *Bank of Boston* case. No one cared enough to see that there was compliance and the law enforced. It just wasn't high priority for anyone. Those facts will be brought out during the course of this hearing.

Not the Bank of Boston, not for the Office of the Comptroller of the Currency, not for the Federal Reserve. The Enforcement Division at the Treasury Department was the exception, but its efforts

were frustrated by a bureaucracy in the bank and the regulatory agencies that either didn't care or exhibited monumental incompetence.

The Bank of Boston has made noncompliance with the Bank Secrecy Act an art form. It pleaded guilty, of course, to forgetting about the forms for the \$1.22 billion, transactions which extended over 4 years. It clearly treated many domestic cash transactions in the same manner. It just didn't report them.

And within days of this hearing, the bank is still finding cash items that somehow never got on one of those CTR forms, like \$73 million in transactions involving Haiti.

The Bank Secrecy Act, in an effort to cut down on unnecessary reports, allows institutions to exempt retail enterprises that deal directly with consumers and normally generate large volumes of cash, such as grocery stores. When the 1980 regulations were promulgated, it was the clear intention that the granting of exemptions was to be narrow, limited to those firms that had clear and legitimate reasons for generating cash through retail operations. Misused, the exempt list obviously could defeat the purposes of the Bank Secrecy Act.

In the case of the *Bank of Boston*, the term "misuse" may be mild. With its lack of controls, the exempt list at the bank and its branches was allowed to grow willy-nilly, outfits clearly lacking the retail/consumer aspects added to the list. In the process, the Bank of Boston placed firms controlled by reputed organized crime figures on its exempt list, thus shielding much of their operations from law enforcement agencies.

The bank, I am sure, would like to claim that this was just another of those administrative glitches, another one of those patented Bank of Boston accidents, but if it was an accident, it was an accident that just kept on happening. As notorious as the Angiulo family was in New England, it would be hoped that a bank at any level of responsibility would have had grave questions about exempting its enterprises from reporting requirements and shielding their cash transactions. But the fact that the legal problems of the Angiulos were regular fare in the Boston newspapers apparently didn't trigger anyone's concern at the bank about the exempt list.

That would be bad enough, but in truth and in fact, the Treasury Department as early as April 1982 started asking the bank about its exempt list, a fact that might have raised the level of consciousness at an institution that truly cared about its compliance with the Bank Secrecy Act.

In June 1982, the Treasury Department stepped up its contact with the bank, noting that some of their exemptions, including those for the Angiulo enterprises, appeared to be outside the scope of the regulations. Treasury asked for specific information on the list, but for 10 long months the letter sat in the bottom of a key official's in box. I wonder if the bank would wait that long for someone to make a mortgage payment and if they would accept the excuse that the bill was in the in box, you know, the check is in the mail. I doubt that very seriously.

In fact, the actual reply did not go back to Treasury until July 8, 1983, 13 months after the enforcement official asked for the data. The bank that didn't care. And even after the bank had been ques-



tioned, the exemption list specifically marked by Treasury, the Angiulo firms stayed exempt, cash transactions unreported. In fact, our information suggests that they may have remained on the exempt list for as long as 1 year after the first questions were raised with the bank.

No one has come forward with the evidence that the top officials of the Bank of Boston were in conspiracy with organized crime figures, and we are not suggesting that here today. However, bank officials need not be corrupt or into conspiracies for organized crime; it is enough that bank officials, such as those at Bank of Boston, be sloppy and that they operate without controls and without really caring.

Organized crime can make use of any institution that fits that profile, even the purportedly exalted Bank of Boston, and organized crime, drug traffickers, tax evaders are delighted with a regulatory system that hears no evil, sees no evil, and speaks no evil, regulators such as we will find at the OCC during this period of time. That is the Office of the Comptroller of the Currency.

The Office of the Comptroller of the Currency sent its examination force into the Bank of Boston every year. It never found a problem with the compliance with the Bank Secrecy Act, not a thing, all the while the unreported transactions and the outlandish list of exemptions were piling up.

Finally, in 1982, the Treasury Department's Enforcement Division spotted discrepancies in the Massachusetts area and alerted the Office of the Comptroller of the Currency. Then and only then did the Office of the Comptroller of the Currency make a minor mention of the problem in its December 1982 examination report.

Even more alarming is the fact that the OCC, after Treasury asked for help on the Massachusetts banks, dragged its feet. In fact, Treasury had to ask twice, and it was 7 months after the initial request before a full response came back. I guess that was in the in box, too.

More important, when OCC did finally move with the special surveillance requested by Treasury, it threw in its own brand of incompetence. OCC prepared a fine set of special surveillance procedures, forwarded them to the regional office in Boston where someone just forgot to pass them on to the examiners. The result, no special surveillance and the poor Treasury's request still wasn't met.

OCC appears to rise to a high level of efficiency only when it is protecting its turf. Now, when the Boston Customs Office asked for an OCC document, it got the deluxe runaround treatment. When Treasury thought OCC examiners could help in checking items at the foreign bank affiliates, Edge Act corporations, OCC said yes, but then they said no. The end result was zero. And when the grand jury in Boston asked for help, the OCC apparently was less than sensational in what it provided.

The Federal Reserve also has failed to cover itself with glory in these episodes. With some of the recent revelations, we can wonder what the Federal Reserve has been doing with its authority to examine the Edge Act corporations and Federal Reserve member banks, something we will be exploring in these hearings when we



hear from our distinguished members of the Federal Reserve Board.

It is true that the Federal Reserve did spot what it thought was an unusual volume of requests for \$100 bills. In internal memoranda, the agency personnel mused about the development, made some internal reports, and then apparently let it all drop without alerting anyone in the enforcement chain.

Since the Bank of Boston's problems have reached national attention, we have seen a steady stream of confessions coming from other banks across the country. We do not know how widespread the noncompliance has become, but this committee intends to find out and to find out why.

I was here in 1968, when law enforcement officials—in particular, then U.S. Attorney Bob Morgenthau, of the Southern District of New York—came to the committee pleading for help in tracking transactions that were facilitating organized crime, drug operations, and tax evasion. This committee finally succeeded in passing the Bank Secrecy Act in 1970, and I felt that we had taken a major step toward preventing our financial institutions from being used for illegal activities.

I took that effort seriously, and I take the enforcement of the act very seriously today. I want the witnesses to understand that. I want the banking industry, the regulators, and the American public to understand that we are going to insist on full enforcement and compliance with the Bank Secrecy Act and we will not tolerate the selective compliance and enforcement that has damaged the effectiveness of the act as a law enforcement weapon.

At this point in time, I recognize Mr. McKinney for his request for an opening statement.

Mr. McKINNEY. Thank you, Mr. Chairman.

I find myself very disturbed that the Bank of Boston is in front of us. As a founding member of the New England Congressional Caucus and a member of the Banking Committee, I have always considered this bank to be the flagship bank of New England, but today we find that flag is mightily tarnished and very low.

No one here is going to accuse anyone of guilt. That is not our system, but at best we have seen massive mismanagement and stupidity. If, in fact, banks are chartered on fiduciary responsibility and insured by the Federal Government, how can we possibly suggest that there is any fiduciary responsibility within an institution that considers well over \$1 billion to be an oversight when that billion dollars exists outside of the laws of the United States.

I would suggest that, without an education and without money and without high priced lawyers, lack of knowledge of the law is no crime. I would suggest that with plenty of lawyers and education and a knowledge of the business that lack of knowledge of the laws is at least stupidity and at worst culpability.

I keep hearing that the bank officials were not informed, and yet I see letters addressed to bank executives with the very Internal Revenue statutes written in in pen by the recipients. We were not informed, we were not informed, and yet this file I have is replete with informing letters. Either nobody reads the mail at the Bank of Boston or nobody cares about the mail at the Bank of Boston or the Bank of Boston simply doesn't give a damn about Federal law.



I asked the question when I had Mr. Walker of Treasury here: If, in fact, this is an example of obeying the law at a financial institution, if, in fact, it is an example of fiduciary responsibility, would you trust your grandmother's last \$10,000 to this institution? I suggest you probably would not.

Then we move on to who is the recipient of all of this across the country. The organization is called organized crime. Organized crime exists, Mr. Chairman, for only one reason: to have money, to use money.

How easily we turn our heads away from the fact that if they cannot make that money real in the marketplace, if they cannot make that money legit, launder it, then there is no point to their being in the business of killing our children, prostituting our women, and trying to destroy our society with drugs, which is just what they are doing.

I have spent 18 years of my life, both before election and during my time here, and have had personal experiences within my own family as well as facing the devastation that drugs can bring into the life of a human being to the point where it no longer becomes a life. I would suggest to you there is very little difference between the murderer, the pimp, and the drug seller on the street corners of Washington, the street corners of Bridgeport, CT and someone who knowingly—and I underline the word “knowingly”—makes them legit.

Mr. Chairman, I would also have to say something about the regulators. We have an exceptional example of sharp eyes and a fast brain here today in Mr. Stankey. But without question, if we can't depend in this committee on the regulators, if in fact the regulators are not doing their job, they are assisting organized crime in destroying the youth of this country and the fabric of our society.

It always amazes me what a lament we will hear from a bank executor if his house was torn apart by a drug addict looking to get money. I wonder sometimes under these circumstances if the banker didn't end up laundering the very money that he was complaining about losing.

Mr. Chairman, I want and I hope—and I know you are dedicated to it—to be fair in this situation, No. 1. I want, No. 2, to have us look over the law in every facet imaginable to make sure it works, and I should inform you that I am going to write the chairman of the Judiciary Committee and suggest to him very clearly that violations of this law of a certain magnitude no longer exists purely within the civil and light criminal penalties, but that in fact we must begin to look at the laundering of money as every bit as evil as the selling of cocaine or heroin. Until we take away the ability of organized crime to legitimize dollar bills we are never going to stop it. They are going to continue to destroy America, which is what in fact they are doing.

No longer can we turn away from deposits from Haiti to subsidiaries in Miami and say, well, that went through another bank first. No longer can we turn aside where did those \$20 bills come from.

These are questions that people who have the fiduciary responsibility for our financial system, both in Government and in the private sector, are going to have to answer.

As far as this Congressman is concerned, they are going to have to suffer the penalties because I am not going to sit back any longer and watch the youth of this Nation destroyed by drugs.

Thank you, Mr. Chairman.

Chairman ST GERMAIN. Mr. Wylie.

Mr. WYLIE. Thank you very much, Mr. Chairman. My remarks will be brief. I know we want to get to the witnesses, but I do apologize for arriving late today. I have been testifying before the Government Operations Committee, the Subcommittee on Commerce, Consumer and Monetary Affairs regarding the collapse of the private deposit insurance fund in Ohio.

My late arrival, however, is in no way a reflection of how serious and important I believe these oversight hearings to be today. They are very important. And we are going to be involving ourselves in a most serious matter.

When Congress originally passed the Currency and Foreign Transactions Reporting Act of 1970, we did so not just to require additional paperwork or require financial institutions to be supervisory agencies. The bottom line was to deter organized crime's use of our Nation's financial institutions to launder money earned from illegal activities. Congress hoped that the information obtained from the currency transactions reports would be useful for tracking the financial resources associated with criminal activities, such as drug trafficking and investigating persons using foreign bank accounts to conceal the profits gained from these illegal activities.

I want to commend Chairman St Germain for providing the committee with a complete set of witnesses, so that the members may come away from these hearings with a feeling that most of their questions have been answered as to the effectiveness of our current law, the effectiveness of the regulators who carried out the current law and possible changes in the law that are necessary for improvement.

Thank you very much, Mr. Chairman.

Chairman ST GERMAIN. Thank you, Mr. Wylie.

I have an opening statement of Congressman Thomas J. Manton of the State of New York that I will insert in the record at this point:



STATEMENT OF CONGRESSMAN THOMAS J. MANTON  
BEFORE THE SUBCOMMITTEE ON FINANCIAL INSTITUTIONS

APRIL 3, 1985

MR. CHAIRMAN, I APPRECIATE YOUR SCHEDULING TODAY'S HEARING ON THE BANK SECRECY ACT VIOLATIONS COMMITTED BY THE FIRST NATIONAL BANK OF BOSTON. WHEN THERE IS AN APPARENT BREAKDOWN IN THE REGULATORY PROCESS GOVERNING OUR NATION'S FINANCIAL INSTITUTIONS, IT IS VITAL FOR OUR SUBCOMMITTEE TO DETERMINE THE CAUSES.

THE BANK SECRECY ACT WAS ENACTED IN ORDER TO STRENGTHEN THE ABILITY OF THE FEDERAL GOVERNMENT TO FIGHT MONEY LAUNDERING IN DRUG TRAFFICKING, RACKETEERING, AND A WIDE VARIETY OF CRIMES. THE REAGAN ADMINISTRATION, IN CONJUNCTION WITH STATE AND LOCAL LEADERS RECENTLY LAUNCHED AN ALL-OUT WAR AGAINST DRUG TRAFFICKING IN THE UNITED STATES. THE BANK SECRECY ACT HAS GIVEN FEDERAL AGENTS THE ABILITY TO TRACE LARGE AMOUNTS OF CASH USED IN NARCOTICS SALES PROVING TO BE AN INVALUABLE WEAPON IN THE WAR AGAINST DRUGS. IN MY OWN DISTRICT, DRUG TRAFFICKING HAS BECOME A PROBLEM OF ALARMING PROPORTIONS, AND THE BANK SECRECY ACT IS AN ESSENTIAL WEAPON IN THE FEDERAL GOVERNMENT'S CRACKDOWN ON THIS SERIOUS PROBLEM.

THE BANK SECRECY ACT VIOLATIONS REPORTED BY THE BANK OF BOSTON AND OTHER LARGE BANKS BRINGS INTO QUESTION OUR ABILITY TO UNCOVER LARGE CASH CRIMES. WHETHER OR NOT THESE VIOLATIONS HAVE REVEALED A WEAKNESS IN OUR REGULATORY STRUCTURE AND WHETHER OR NOT THERE IS A NEED FOR A STRENGTHENING OF THE BANK SECRECY ACT ARE QUESTIONS THAT NEED TO BE ANSWERED. WE MUST FIND OUT HOW SUCH GROSS VIOLATIONS IN THE LAW WENT UNNOTICED. FINALLY, WE MUST SEEK TO DETERMINE IF THE VIOLATIONS HAVE HAD ANY EFFECT ON THE STABILITY AND SOUNDNESS OF THE FINANCIAL COMMUNITY AS A WHOLE.

MR. CHAIRMAN, I LOOK FORWARD TO HEARING FROM TODAY'S WITNESSES.

Chairman ST GERMAIN. The Chair would like to state that he's very grateful for the staff work that has been done on this matter in such a short period of time. Frankly, it has not been easy to gather much of the information that's been provided to the members. As a matter of fact, it was like pulling teeth. Nonetheless, they were persistent, they worked long hours, they worked weekends, and that I'm grateful for, for before members today is a package of 52 exhibits.

In order to facilitate questioning today, I would ask the members' consent that the exhibits be placed in the record at this time, so that members may refer to them by number. There are several copies of these exhibits on the witness tables, so that the witnesses may refer to the correct documents when questioned as well. I'll try to make this as handy and clear as possible for everybody.

Is there objection?

[No response.]

Chairman ST GERMAIN. The Chair hears none.

[The exhibits referred to by Chairman St Germain follow:]



**CHRONOLOGY OF SHAWMUT BANK CASE  
AND RELATED MATTERS**  
(New Exhibits 45 - 52)

<u>Date</u>	<u>Activity</u>	<u>Who Involved</u>	<u>Documents (Exhibit #)</u>
Oct. 26, 1970	Currency & Foreign Transactions Reporting Act, known as Bank Secrecy Act (BSA), passed (P.L. 91-508)	Congress & President	
Apr. 5, 1972	Initial BSA regulations published w/broad exempt list language and no reporting of interbank transactions w/foreign banks	Treasury	
Nov. 1979	ABA and others submit comments to docket critical of Treasury's Sept. 7, 1979 proposal to tighten exemption lists & require CTR filings for transactions with foreign banks.	Various officials	Exhibit 4
June 5, 1980 (effective July 7, 1980)	Treasury issues revised BSA regulations, tightening exempt list standards and requiring currency transaction reports (CTRs) on interbank transactions with foreign banks	Treasury	(For text, see Exhibit 5)
July 1, 1980	OCC notifies banks of changes in regulations.	OCC, Banks	Exhibit 5
May 1 1981	OCC issues new procedures to OCC examiners (Examining Circular 201) re examining for BSA compliance	Paul Homan	Exhibit 9
April 28, 1982	Treasury requests exempt lists from Massachusetts banks, including Shawmut	Treasury (Stankey)	Exhibit 12
Sept. 21, 1982	Treas. asks OCC & Federal Reserve for "special compliance enforcement effort" for specified Mass. banks, including Shawmut Bank of Boston and other Shawmut holding company affiliates.	Treasury (Stankey) OCC, FDIC, Fed	Exhibit 45

<u>Date</u>	<u>Activity</u>	<u>Who Involved</u>	<u>Documents (Exhibit #)</u>
Jan.31, 1983	Federal Reserve examiners describe their compliance reviews of both banks covered by Sept. 21 letter Revelioty (Fed)	Alan Osterholm, John Ryan, Richard Randall, Michael Revelioty (Fed.)	Exhibit 25
March 7,	OCC Washington office official advises Roy Dunham of Boston Regional office by phone what procedures to use on specified Mass. banks in which Treasury is interested.	Julie Linville Roy Dunham	Exhibit 26
Apr. 5, 1983	OCC advises Treasury on what special enhanced procedures it will use to examine specified Mass. banks in which Treasury is interested. Copy is sent to Dunham in Regional office, but not clear when.	Jullie Linville (OCC author of ltr), Karen Wilson, Roy Dunham	Exhibit 27
Dec. 31 1983	Document in "correspondence file" from 12/31/83 Exam--the 9/21/82 Treas. memo to OCC on Mass. banks	1983 OCC Shawmut examiners	Exhibit 46
1983	OCC in 1983 Shawmut examination finds no 31 CFR violations	OCC examiners Ziegler & Goldberg	
Sept. 13 1984	Internal Shawmut memo to branch managers. Refers to attached <u>Globe</u> article on Rockland Trust's vilations with reminder to update exempt lists & to complete CTRs.	Shawmut Branch Managers	Exhibit 47
Sept. 20 1984	Shawmut legal department memo to reexamine the Act and bank compliance, one week after Rockland, distributed widely, throughout the corporation, including to William J. Deane, Jr. Head of Division that includes Coin & Currency	Hurley and Reefer, (legal department)	Exhibit 48
Oct. 3, 1984	Shawmut memo from Dennis P. Shea, Jr. Vice President to legal department replying to Sept. 20 memo, confirm compliance w/ Act.;cc to Deane.	Hurley, Reefer, and Shea	Exhibit 49
Nov. 30, 1984	"Date" of OCC, 1984 Examination of Shawmut	McCarthy and Gusmini (OCC Examiners)	
Dec. 12, 1984	Shawmut memo to Hamill from Reefer reporting that it appears corp. is in compliance with Act. States Auditor MacKinnon suggested the distribution of updated guidelines on September 20, 1984 (see above).	Hamill, Reefer MacKinnon	Exhibit 50



<u>Date</u>	<u>Activity</u>	<u>Who Involved</u>	<u>Documents (Exhibit #)</u>
Feb. 7, 1985	Bank of Boston pleads guilty of knowingly and willfully violating Act. Shawmut starts intensive internal review of BSA compliance as a result thereof.	BoB, Shawmut	
Feb. 14, 1985	31 CFR Examiner McCarthy attempts to see Shawmut management	McCarthy, Shawmut	
Feb. 19, 1985	Shawmut officially advises OCC and Treasury of its violations	Shawmut, OCC, Treasury	Exhibit 51
Early March 1985	Special team of OCC examiners enters Shawmut to review it and other Massachusetts banks for 31 CFR compliance	OCC (Langdon was team leader with 5 others)	
March 15, 1985	Special OCC examination team in Shawmut told to leave due to IRS investigation	OCC/IRS	
March 25, 1985	Langdon, special OCC team leader drafts "preliminary memo: unverified" to John Downey, Chief National Bank Examiner on team's findings on Shawmut. Cites numerous violations and is critical of internal auditors.	Langdon, Downey	
1981 to 1984	Federal Reserve Board Reports of Examination of the First National Bank of Boston's Edge Corporations from 1981 to 1984	Federal Reserve, BoB's Edge Corporations	Exhibit 52

EXHIBIT 1

C.

January 29, 1976

Retail Banking Division  
100 Federal Street  
10th Floor

Attn: John Dillon

Reporting of Large Currency Transaction

The Following is a list of customers who occasionally make large deposits  
or withdrawals at this office:

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-----  
-----  
Huntington Realty Co.

(Mrs.) Gloria C. Cushing, LO  
North End Office



FEDERAL RESERVE BANK  
OF BOSTON

EXHIBIT 2

## MEMORANDUM

Date March 30, 1977

To: Mr. [redacted]

Subject Shipment of Currency

From: [redacted]

to Foreign Banks

It came to my attention a short while ago that the First National Bank of Boston was ordering large amounts of \$100 notes for shipment to a Swiss bank. It seemed that it would be appropriate to investigate the matter with First National to determine --

- 1) the legalities of the transactions;
- 2) were there any requirements for reporting these transactions to the Treasury;
- 3) the length of time that this process would continue so that we may determine its effect on our supply of currency.

I spoke with [redacted] First National Bank, and in charge of the First's international operations, and raised these specific issues with him. He investigated the matter internally and a Mr. [redacted] reacted to our queries. Mr. [redacted] informed me that the operation began for the First National Bank of Boston in August 1976. This function was originally performed by New York banks, in particular the Chase Manhattan Bank. The currency is shipped to [redacted]. The cause of the switch from a New York Bank to a Boston bank was described as reduction in theft possibilities at the airport, efficiency and, of course, less cost. The Federal Reserve Bank of New York suggests that the switch was made because the New York Fed refused to provide additional \$100 notes to the New York banks.

Prior to becoming involved, the First National Bank checked with Chase Manhattan and City Bank and also made its investigation with [redacted] and determined that the transactions were legal. I understand that the demand for the currency is caused by the desire of some to hold a position in dollars because it is the safest and most stable currency available at this time. The First also investigated the requirement for reporting. Their legal department determined that there is no reporting requirement as the transaction is defined as an inter-bank transaction which is an exception to the rule. Our Legal Department confirms that conclusion.

Mr. Colbert also mentioned that it is a profitable function for the First National and that they are receiving inquiries from other European and South American banks in regard to the service being performed by the First. Relative to expanding this service, Mr. [redacted] mentioned that the most serious problem is obtaining insurance. [redacted] has an insurance company as an affiliate and it is easy to accommodate their insurance problem.

The First National anticipates that their requirements over the next three months will vary between \$20 to \$25 million per month in \$100 notes and \$1 to \$2 million per month in \$50 notes. I spoke to [redacted] re-

- 2 -

garding our ability to meet these requirements and his reaction was "no problem" provided that the demand for the notes does not go beyond the three month period. If the requirements by First National exceed the three month period, we may find ourselves in the position of refusing to fill the First's currency orders.

has contacted a staff member at the Board to determine if --

- 1) they are aware of the situation and
- 2) what is the significance of the shipments of U.S. currency to foreign banks?

To the best of our knowledge, it seems that the shipment of U.S. currency to foreign banks appears to be strictly an operations problem -- availability of the supply of currency to be shipped. However, not knowing very much about the purpose of the transactions, we should determine --

- 1) are these transactions in the best interest of the United States and,
  - 2) if so, should our inability to supply the currency to the First be the determining factor to restrict this service or force its move to another district?
- W*



FEDERAL RESERVE BANK  
OF BOSTON

BOSTON, MASSACHUSETTS 02108  
TELEPHONE (617) 486-7100

June 22, 1977

Mr.  
Staff Director of Federal  
Reserve Bank Activities  
Board of Governors of the  
Federal Reserve System  
Washington, D. C. 20551

Dear

and of this Bank have been talking with and International Division of the Board's staff concerning the appropriateness of supplying rather large quantities of Federal Reserve notes --mainly \$100 bills-- to member banks, which they in turn provide to foreign banks to support transactions in the Bank Note Market. As I understand it, there were no reservations expressed by the Board's staff concerning the appropriateness of the role of the commercial banks in this activity.

As you can see from the attached memorandum prepared by an officer of The First National Bank of Boston, our inability to provide additional notes for this purpose because of our low supply is a matter of serious concern to that institution. In that regard, I would appreciate any assistance you and your colleagues could give the Federal Reserve Bank of Boston in helping us overcome our supply problem.

Sincerely,



Enclosure

June 16, 1977

TO: Mr. Federal Reserve Bank of Boston  
 Mr. Federal Reserve Bank of Boston

SUBJECT: U.S. DOLLAR BANK NOTE (CURRENCY)

On Wednesday, June 15, I presented to you various aspects of The First National Bank of Boston's (FNBB) activities in the U.S. Dollar Bank Note business and some background information on the business itself. In response to your request to summarize our discussions, the following memo is submitted:

In July/August 1976, FNBB began buying and selling U.S. bank notes with amounts were from \$500 thousand to \$3 million per transaction. The first order from Switzerland was for \$20 bills, the second order was for \$100 bills, the third order was for \$50, \$20 and \$10 bills. We also bought large amounts of bank notes from usually in \$20's and \$10's.

The Manager of Bank Note Department in informed me that they decided to try FNBB on the recommendation of a senior trader in their bullion dept. who had known FNBB in the F/X market. stated that they were dissatisfied with the service received from New York banks. claimed that often they would order U.S. bank notes from a New York bank that would promise delivery on a certain date but the bank notes would not arrive as promised in said that they did not primarily blame the New York banks, rather they felt the congestion at Kennedy Airport was the major culprit.

Over the last 9 months was most pleased with the service received from FNBB. wants to deal with FNBB but as long as we do not have a regular supply of \$100 bills and such bills are available at other U.S. banks, then the are forced to go elsewhere.

There are several other apparent advantages that Boston has. Its airport is closer to Europe thus reducing travel time and airfreight charges. Additionally, there seem to be some benefits on the insurance charges when currency shipments come out of or in to Logan as opposed to Kennedy.

FNBB has been informed that for the last five years or longer the has been doing a large amount of its U.S. bank note trading in this country with presumably for reasons similar to those has sighted in their relations with FNBB.

had begun calling on FNBB in May of this year for U.S. bank notes. We had solicited this business for the last 16-18 months and after considerable effort on our part received their first order, for \$1,000,000 in \$10 bills on May 10.

At this point I will describe briefly the Bank Note Market. The big 3 Swiss banks plus a couple of smaller Swiss banks and a few banks in London pretty much control the "wholesale bank note market." They buy and sell over 150 various currencies of which roughly 1/3 are traded only a few times per week, 1/3 traded only a few times per day and 1/3 are traded more actively. The U.S. dollar is by far the most active currency since it is the only currency accepted worldwide for making payments. The Swiss Franc and the Deutschemark are also actively traded. These "wholesale bank note



traders" deal with banks throughout Europe, Asia, the Middle East, Africa, the Communist countries, and Latin America. The Swiss banks are constantly buying and selling various currencies with these other banks. The market is as old as international commerce itself but has grown rapidly in recent years.

Some of the factors impacting on these currency markets include:

- (a) Tourist flows - An example is where U.S. tourists coming to Europe usually help provide the U.S. bank note needs of the wholesale market during summer months while in the winter the Swiss normally have had a greater need to buy additional U.S. bank notes from the U.S.
- (b) Foreign exchange rates - In recent months the U.S. dollar has seemed to be "cheap" relative to the Deutschemerk thus the demand for dollar notes has increased. Many individuals in the world want to hold some U.S. currency as a "store of value." This is not surprising when inflation rates in certain countries is considered.
- (c) Exchange regulations, political and economic disruptions - As various countries tighten their exchange regulations in order to prevent outflows of capital (or even inflows as has been seen in the case of Switzerland) many business people and people of means try to find ways to "put something aside" outside their home country. If it is illegal to have an account abroad they may decide simply to buy some "hard currency" and/or gold. The U.S. dollar is a common investment and with the "price low recently," the Swiss have seen an increased demand for U.S. bank notes.

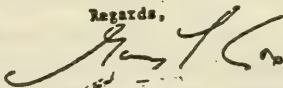
May I now turn to the events of early June 1977 when FNBB was told that only a very limited amount of \$100 bills could be supplied to us. It should be noted that the Swiss especially like the \$100 bills since airfreight expenses for such bills are only half the expense of \$50 bills (due to the weight and number of bills). Since this bank note market is very competitive both in service and pricing, every margin must be watched closely. We informed the 3 big Swiss banks of our inability to provide \$100 bills and have, since then, had almost no bank note sales to Switzerland. [redacted] advised me that they immediately called in New York and have been obtaining \$100 bills now with no delays or problems. [redacted] also has obtained indications from Chicago banks that \$100 bills could be obtained there. [redacted] after being refused \$100 bills by us immediately called their New York branch which has been able to provide the notes as needed without any problems. [redacted] which I believe is the smallest of the big 3 in the bank note business, claims that their needs for \$100 bills since early June has only been \$1 million which they were able to buy in Europe.

In summary - The First National Bank of Boston has now been excluded from the U.S. bank note business with Swiss banks due to the unavailability of \$100 bills. This business had been solicited by FNBB and obtained over the last year at considerable effort and some expense to our bank. The rapport established by FNBB bank note dept. with the Swiss banks was crucial in this business. FNBB had realized significant income from this business since the Swiss banks provided us with "float" to compensate us for our services.

May I request that you endeavor to arrange as soon as possible for the Federal Reserve of Boston to be able to regularly supply banks in this District with \$100 bills, at least to the extent that such bills are available anywhere in the Federal Reserve

system of this country. Once FNBB can be assured of such a supply of \$100 bills we will so advise the Swiss banks and again solicit this business. Hopefully we will be successful in getting the Swiss banks to deal with us again in the future. This is quite important to FNBB from a profit point of view. Your urgent assistance is greatly appreciated.

Regards,



Assistant Vice President

AT

CC:

Assistant Vice President

THE FIRST NATIONAL  
BANK OF BOSTON

111 NASSAU STREET  
BOSTON

TELEPHONE  
617/434-3936

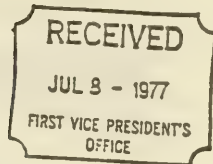




BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON, D. C. 20551

DIVISION OF FEDERAL RESERVE BANK  
EXAMINATIONS AND SURVEYS

July 8, 1977



First Vice President  
Federal Reserve Bank of Boston  
Boston, Massachusetts 02106

Dear

I have had my staff check into providing additional \$100 notes to meet your continuing unusual demand for the note. It appears that a few days after your letter was sent, my staff arranged for Boston to receive \$60.8 million in \$100 notes held at the Bureau of Engraving and Printing for the Federal Reserve Bank of New York. These notes have been scheduled for shipment on July 12th and 13th and, according to the staff at Boston, should alleviate the immediate problem.

Since this same situation has occurred in other districts over the past nine months, perhaps the Subcommittee on Currency and Coin should study the high demand for \$100 notes as a continuing problem and the appropriateness of the role of the commercial banks in this activity. I would appreciate your thoughts on this matter.

Sincerely yours,

Associate Director

FEDERAL RESERVE BANK  
OF BOSTONBOSTON, MASSACHUSETTS 02108  
TELEPHONE (617) 426-7100

FED. VICE PRESIDENT

July 21, 1977

Associate Director  
Board of Governors of the  
Federal Reserve System  
Washington, D.C.

Dear Sir:

Many thanks for the assistance your staff gave us in obtaining Federal Reserve \$100 notes for use by a member bank to ship to foreign banks to support transactions in a "Bank Note Market."

I concur with your suggestion that this subject should be studied by a System committee. However, I would recommend this particular activity be assigned to the Committee on Regulations, Bank Supervision and Legislation to determine the appropriateness of the transactions for commercial banks, legalities, markets, public interest, etc. If this committee determines that this function is appropriate then I would think that the Committee on Currency and Coin would then be asked to look into the operational side of the subject.

Again, thanks for your assistance in avoiding a bank relations problem.

Sincerely,



THE FIRST NATIONAL BANK OF BOSTON  
INTEROFFICE COMMUNICATION

EXHIBIT 3

September 28, 1979

To: Hubert W. Cox, Mgr.  
Retail Banking Division  
100 Federal Street 10/6

Subject: Request for Exemption from Large Currency Transaction Reports

It is requested that the following named account be placed on the exempt list for reporting large currency transactions. The depositing of large amounts of cash to this account is considered to be in the normal course of business.

Federal Investments, Inc.  
95-96 Prince Street  
Boston, Mass. 02113

*Gloria C. Cushing*  
Gloria C. Cushing  
Manager  
North End Office  
Ext. 3208



AMERICAN  
BANKERS  
ASSOCIATION

EXHIBIT 4  
1120 Connecticut Avenue, N.W.  
Washington, D.C.  
20036  
*late*



FEDERAL  
AGENCY  
RELATIONS

FEDERAL ADMINISTRATIVE COUNCIL  
John J. Call  
202/467-4200

November 21, 1979

Mr. Richard J. Davis  
Assistant Secretary (Enforcement and  
Operations)  
Department of the Treasury  
1500 Pennsylvania Avenue N.W.  
Washington, D.C. 20220

Dear Mr. Davis:

In response to the notice published in the September 7, 1979 Federal Register, the American Bankers Association is submitting these comments on the Financial Recordkeeping and Reporting of Currency and Foreign Transactions proposed rulemaking. Our Association is comprised of 13,107 full-service banks, more than 90% of the nation's banking community.

The Treasury's proposal would amend existing regulations in several significant ways. First, financial institutions would be required to file the report of currency transactions within 15 days (rather than the existing 45 days) of the occurrence of the transaction. It would also require that reports be retained for five years after filing. In addition, the proposal would significantly limit the present exemption for established customers and would eliminate the exemption for foreign banks and other financial institutions except domestic banks. Finally the proposal would strengthen standards for customer identification in both required and certain exempt reports.



Our Association does not object to the accelerated filing or the extended recordkeeping periods in the proposal. In view of the need for prompt filing of reports of currency transactions for law enforcement purposes, our Association recognizes that a 15 day filing deadline may be appropriate under these regulations. In addition, although a five year retention period for currency reports will impose some additional storage burden on banks which do a significant volume of large currency transactions, we also recognize that access by law enforcement officials to these reports may be necessary over extended periods of time for statutes of limitations purposes. Nevertheless, because the Department of Treasury should bear some of the burden of record retention and research imposed by this statute, we would suggest that the retention period for currency reports be limited to two years.

AMERICAN  
BANKERS  
ASSOCIATION

CONTINUING OUR LETTER OF

November 21, 1979

SHEET NO. 2



Our Association is also supportive of the proposal to require more clear identification of customers engaged in large currency transactions. At present, the regulations governing customer identification are sufficiently vague as to permit customers to avoid providing sufficient information on themselves and their business status for easy identification in any subsequent investigation. We would suggest, however, should stricter identification requirements be finally adopted as proposed, that currency transactions report forms be amended to provide for boxes to check off the most commonly used methods of identification (i.e., driver's license, credit cards, passports) in order both to ease compliance burdens by reminding bank employees of their responsibility to note means of identification, and to reduce additional paperwork.

One area of the proposal with which we are concerned is that which reduces the present exemptions from currency transaction reporting. It seems to our Association that some means should be provided for non-retail customers of banks to be able to exempt themselves from currency reporting requirements when they deal regularly with large currency transactions for acceptable reasons. In addition, it seems unreasonable to limit the exemption to retail establishments. In today's economy, \$10,000 is not an excessive amount of money. Although we recognize that retail establishments are by far the most likely institutions to deal regularly in such amounts of currency, we do not understand why other business and corporate accounts should not retain their current exemption.

We are also, and more strongly, opposed to restricting the present exemption for financial institutions to domestic banks. The banking industry has neither the resources nor the authority to police the actions of other financial institutions subject to the treasury's recordkeeping and reporting requirements. Brokers and dealers in securities are licensed and regulated by the Securities Exchange Commission, and, if the Treasury Department is concerned about the level of compliance with those regulations in such institutions, it should request that the Commission use its resources to ensure that such reports are filed. In addition, removing the exemption for transactions with foreign banks will constitute an almost impossible paperwork burden on some bank's international departments. The volume of financial transactions presently moving over international wire transfer systems is growing at a geometrical rate. In many cases, identification of all of the parties to such a transaction is difficult, if not impossible. In addition in almost no cases will all of the required identifying detail necessary for currency transaction reports be available from international currency transactions.

AMERICAN  
BANKERS  
ASSOCIATION

CONTINUING OUR LETTER OF

November 21, 1979



SHEET NO. 3

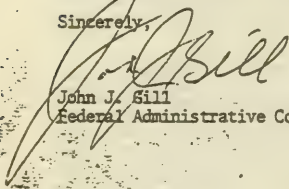
Our Association, therefore, is strongly opposed to eliminating or limiting the present exemption for bank transactions with other financial institutions; and would suggest modification in the proposed limitation of the exemption for established customers. We would urge the Department of Treasury to seek out other resources of the primary Federal supervisory agencies responsible for non bank financial institutions in order to assure compliance with currency reporting and recordkeeping requirements.

We would also urge the Treasury to establish, as an alternative to the present blanket exemption for established customers, a regulation that provides an exemption from reporting for any established corporate bank customer engaged in a business which could regularly be or periodically be expected to produce large currency transactions. In addition, we would suggest that non-corporate established bank customers be provided a procedure whereby they could file a routine request for exemption from reporting where they could demonstrate that they regularly engage in large currency transactions for a lawful and appropriate purpose.

In summary, our Association supports the thrust of the Treasury's proposal, but would suggest modifications to the limitation on exemption from reporting requirements therein proposed. In particular, we urge the Treasury not to eliminate the exemption for transactions with other financial institutions, and to provide a procedure whereby non-retail bank customers may be able to enjoy a continued exemption from the filing of currency reports, whenever they are engaged in an activity in which large currency transactions were made for no nefarious purposes.

We appreciate the opportunity the Treasury has offered to comment on this proposal.

Sincerely,

  
John J. Gill  
Federal Administrative Counsel



## BANK OF AMERICA

R. D. FERRARI  
Vice President

CALIFORNIA DIVISION

November 5, 1979

Assistant Secretary (Enforcement and Operations)  
Department of the Treasury, Room 4308  
1500 Pennsylvania Avenue, N.W.  
Washington, D.C. 20220

Attention: Mr. Robert J. Stankey, Jr.

Dear Mr. Stankey:

The following comments concerning the Treasury Department's notice of proposed rulemaking governing financial recordkeeping and reporting of currency, and foreign transactions are submitted on behalf of Bank of America.

The proposed revision of the currency transaction reporting regulation would reduce the time for filing required reports from 30 days to 15 days after a transaction takes place. Additionally, it would refine the requirements for the identification of persons conducting unusual currency transactions, particularly with respect to revealing the identity of aliens. Finally, the revision would limit the exemption for reporting transactions between financial institutions to those involving foreign banks, and it would limit a bank's exemption for foreign high-wire customers from the \$10,000 reporting requirement. While we have no objection with the revision of the deadline and identification requirements, we have serious reservations concerning the proposed revisions on the reporting exemptions.

The proposal would eliminate the present exemption for reporting transactions solely with, or originated by, financial institutions or foreign banks. It would limit the exemption to "transactions with other domestic banks". Two major problems arise under that revision.

Assistant Secretary  
Page Two  
November 5, 1979

The first, and most obvious, is the increased and substantial reporting burden imposed on domestic banks. "Financial institutions" are defined in 31 CFR 103.11 to include the following: brokers and dealers in securities; businesses engaged in dealing in or exchanging currency; businesses engaged in issuing, selling, or redeeming travellers checks, money orders, or similar instruments; and licensed transmitters of funds. Transactions involving more than \$10,000 are common with all of these businesses. When added to the number of transactions with foreign banks involving more than \$10,000 the reporting burden will be increased substantially. Furthermore, the stated purpose of this revision is to "provide additional information concerning possible illegal or improperly unreported flows of currency in the United States". In order to justify the increased reporting burden as necessary, one must accept the proposition that large numbers of foreign banks and "financial institutions" are engaged in illegal currency transactions. We are unaware of any credible evidence to suggest this is true.

The second major problem arises from the definition of "domestic" and "foreign" banks in 31 CFR 103.11. Under the definitions, an agency, branch, or office, located outside the United States, of a U. S. bank is a "foreign bank". An agent, agency, branch, or office, located within the United States, of a foreign bank is a "domestic bank". Therefore, the proposed revision creates the anomaly of requiring a U. S. bank to report currency transactions between branches within its own system while exempting transactions with institutions which are, in fact, foreign banks.

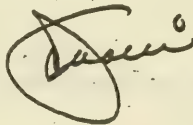
We recommend that the elimination of the reporting exemption for transactions involving financial institutions and foreign banks be reconsidered. At the very least, the exemption for foreign banks should be retained. The reporting of currency transactions between branches of a U. S. bank, or between a U. S. bank and a foreign bank, standing alone, would not provide sufficient information to allow the tracing of the actual source of any illegal flow of currency.

Assistant Secretary  
Page Three  
November 5, 1979

The proposed rule would also limit a bank's ability to exempt established customers from the \$10,000 reporting requirement. Under the current regulations, (31 CFR 103.22) a bank need not report transactions with an established customer, who maintains a deposit relationship with the bank, in amounts the bank reasonably concludes do not exceed amounts commensurate with the customer's business, industry, or profession. The proposed rule would limit that exemption to "an established depositor who is a United States resident and operates a retail type of business in the United States". The proposed rule is vague as to what constitutes "a retail type of business". Of the examples given (a small loan company, a race track, a department store, a theater or sports arena), only one, the department store, is actually a retail business. Furthermore, listing a "small" loan company as an example implies that either large companies making small loans, or small companies making large loans would not qualify for the exemption. As drafted, the proposed rule would require banks to make all sorts of judgmental decisions concerning the type, size, and form of its customers' businesses. For example, would doctors and lawyers fall within the exemption? If not individually, would law firms, doctors' offices, and other professional associations which often conduct transactions in excess of \$10,000 be exempted, as we believe they should? Would a small retail store which is a subsidiary of a large wholesale company be exempted?

Banks should not be placed in the position of having to analyze all the various factors which may be involved in its customers' businesses under the proposed regulation. Furthermore, the Secretary of the Treasury already has the authority, under 31 CFR 103.22, to require banks to file reports listing customers who engage in transactions which are not reported because of the exemption. Therefore, we believe the proposed revision of 31 CFR 103.22 is unnecessary, and we recommend that it be deleted from the proposal.

Sincerely yours,

A handwritten signature in dark ink, appearing to be "D. Green", written in a cursive style.



*Starkley*  
*Jate*

## THE FIRST NATIONAL BANK OF CHICAGO



November 6, 1979

Assistant Secretary (Enforcement and Operations)  
Department of the Treasury  
Room 4308  
1500 Pennsylvania Avenue N.W.  
Washington, D.C. 20220

Re: Proposed Revisions to  
31 CFR Part 103

Gentlemen:

I wish to make a few brief comments on your proposed rulemaking published in the Federal Register September 7, 1979 which would effect certain changes to the present reporting requirements of currency and foreign transactions contained in 31 CFR Part 103. The revision to Section 103.22(b) will not require reports by banks of transactions with "other domestic banks". We believe that "domestic banks" should be clarified somewhat, in particular to include savings and loan associations so as to ensure that they receive the same treatment as institutions more clearly falling within the definition of "domestic bank".

The revision of Section 103.22(c) creates the discretion in the Assistant Secretary to require a bank to file the detailed reports for non-exempt transactions for certain customers who have been exempted from the reporting requirement due to the size and retail nature of their transactions. We suggest that a requirement whereunder each transaction effected by a large exempted customer would have to be recorded would be extremely cumbersome, difficult to maintain and would be of little utility.

Finally, the possibility should be contemplated in the regulations that despite the best efforts of a bank to obtain the taxpayer's identification number of its customer in certain instances the Bank may in fact not be able to obtain such a number.

*EO-9-113-79*

FIRST NATIONAL BANK OF CHICAGO

CONTINUING OUR LETTER OF

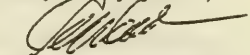
November 6, 1979

SHEET NO

Two

Thank you for the opportunity to comment on this  
proposed regulation.

Very truly yours,



Richard L. Wood  
Senior Vice President  
Operations  
(312) 732-5454

Citibank  
399 Park Avenue  
New York, N.Y.  
10043

November 5, 1979

The Honorable Richard J. Davis  
Assistant Secretary for Enforcement  
and Operations  
U.S. Department of the Treasury  
Room 4308  
1500 Pennsylvania Avenue N.W.  
Washington, D.C. 20220

Dear Assistant Secretary Davis:

Comments have been invited on the Treasury Department's proposed rulemaking revising the currency transaction reporting regulations issued under the authority of the Currency and Foreign Transactions Reporting Act (84 Stat. 1118). We welcome the opportunity to present our views.

We understand and support the public policy underlying the Currency and Foreign Transactions Reporting Act (the Act). Citibank has and does comply with both the letter and spirit of the Act and existing reporting regulations. Because of our record of compliance with the Act and reporting regulations and the size of the markets and many customers we serve, we express material concern about the proposed amendments to the existing currency reporting regulations (31 CFR Part 103). Our comments will focus initially on domestic problems raised by the proposed amendments then discuss off shore problems.

Both in the Supplementary Information accompanying the proposed amendments to Section 103.22 (c) and the actual proposed amendments, reference is made to a "retail type of business." As you know, 31 CFR Section 103.11 (Meaning of Terms) contains no definition of "retail type of business." Since this term is very central to the thrust of the proposed amendments, we believe the Treasury should propose both a definition and the policy reasons for the inclusion of this term and submit the definition for public comment. Your inclusion of the term "retail type of business" in the proposed amendments, without either a proposed definition or a concise, comprehensive discussion of the need for the term in the proposed



amendment, materially alters the scope, effect and responsibilities of all persons having responsibilities for or under or affected by the existing currency reporting regulation and the proposed amendment. In an effort to be helpful, we respectfully submit the following definition of "retail type of business" for your consideration and possible later publication for comment as a proposed amendment to 31 CFR Section 103.11:

Retail Type of Business. "A business primarily engaged in providing goods and services to consumers and for which the business is paid in substantial portion by currency."

While we recognize the attempt in the proposed amendment (31 CFR 103.22 (c)) to give examples of what Treasury believes "retail type of business" to be, given the impact of this regulation and the responsibility and expense of reporting and compliance that the proposed amendment imposes on financial institutions, the examples and the lack of a cogent readily understood definition of "retail type of business" or the authority and public policy reasons for its inclusion are a serious flaw in the proposed amendment as presently written.

Nowhere in the proposed amendment is there recognition of the need for an exception for currency transactions with governments, government agencies and quasi-governmental agencies. While we recognize that the proposed amendments seek additional data on compliance with the reporting regulations, we are deeply concerned that the effect of the proposed amendment to 31 CFR 103.22 (Reports of Currency Transactions) would be to require Banks to submit daily voluminous reports of currency transactions with governments, governmental agencies (such as a surface transportation agency as one example) or quasi-governmental agencies. We believe the most efficient step for the Treasury to undertake to eliminate this proposed burdensome reporting requirement is to propose a new exception as a new amendment to 31 CFR Section 103.22 (b) for public comment as follows:

103.22 (b)(3) require reports by banks of transactions with governments, governmental agencies or quasi-governmental agencies.

We believe the public policy reasons supporting

the exception in the hereinbefore discussed proposed new amendment to Section 103.22 (b) are genuine, obvious, seated in sound public and business policies and do not require extensive discussion.

We are unable to find in the proposed amendment where provision is made for applications for special exceptions. Given the expanded reporting requirements envisioned by these proposed amendments if adopted, it is reasonable to expect that specific currency transactions will occur that will necessitate a Bank making application for special exception. Examples of these special exceptions would be the deposit of currency campaign funds in a commercial bank for local political candidates which are now required to be reported under existing federal and state campaign finance laws or deposits derived from public fund raising by a recognized tax-exempt organization at specific times during the year. We believe Treasury should prepare for public comment a proposed new amendment (d) to 31 CFR 103.22 setting forth procedures for applications for special exceptions.

As you know, commercial banks have long provided payroll preparation services for their business customers. A literal reading of the proposed amendments and the Supplementary Information comments under paragraph (5) appears to cover payroll preparation services for non-"retail type of businesses." We trust our literal reading is just that and your proposed amendments do not require the burdensome reporting of these currency intensive payroll preparation services. We oppose the inclusion of payroll services under the reporting requirements and request your written clarification of this issue.

The proposed amendment to Section 103.25 requiring a five year retention period for each report by a financial institution is burdensome, costly, onerous and of questionable value to Banks' depositors, customers, shareholders or to the consumer-customer public who must pay for the extravagance of Banks becoming the non-reimbursed medium term warehouse for government records. Our reading of the legislative history, relevant congressional testimony and intent of the Currency and Foreign Transactions Reporting Act (Public Law 91-508, Title II, October 26, 1970) shows no congressional intent to have commercial banks become warehouse depositories of federal records. We see this five year retention period as being an arbitrary records storage requirement proposed by the Treasury Department. If there is a problem with the Treasury storing the Banks' reports for five years, then it is incumbent on

the Treasury Department to bring its problem to the attention of the Congress and not to shift the problem to financial institutions by regulatory fiat. We further question your authority for this proposed 5 year retention requirement. It is hardly a finding of fact, recognized banking practice or required by Public Law 91-508, Title II, as a compliance requirement when you state in paragraph (2) of your Supplementary Information accompanying the proposed amendment:

..."While it is our understanding that many banks routinely retain copies of the reports, the requirement would ensure that copies would be available for the use of banks supervisory agencies that have the responsibility for examining financial institutions for compliance with the reporting requirement."

From the foregoing explanation, we see both a potential violation of a customer's expectation of privacy from his Bank as well as redundant reports storage since these reports are or should be available from the Treasury and IRS at the formal request of the federal bank supervisory agencies who "have the responsibility for examining financial institutions compliance with the reporting requirement." We do not believe either the economic burden imposed on commercial banks and their customers or specific authority for this proposed 5 year retention requirement exists either in the Currency and Foreign Transactions Reporting Act (Public Law 91-508, Title II) or in 31 CFR Part 103.

As to the off shore effect of these proposed amendments, an obvious inconsistency leaps forth immediately. Under the proposed amendments to Section 103.22 (b) (2), banks are not required to report transactions with other domestic banks except as otherwise directed in writing by the Secretary of the Treasury. We believe the distinction this proposed amendment makes by excepting domestic bank transactions and by dropping the old exception in Section 103.22 (b)(2) not requiring "reports of transactions solely with, or originated by, financial institutions or foreign banks" is both unwise, discriminatory and not warranted by the express language or intent of Public Law 91-508, Title II. Financial institutions are charged by the federal government with the material responsibility of reporting currency transactions over certain stated amounts and retaining records on these reports. Implicit in this responsibility for each financial institution is the directive to recognize each transaction, scrutinize it for possible appli-




cability of the requirements of 31 CFR Part 103 and report the currency transaction if it comes under Part 103 requirements. There is no requirement that transactions in the ordinary course of banking business, whether domestic or foreign in origin, should have to be reported. Nowhere in our reading of Public Law 91-508, Title II or 31 CFR Part 103 have we found authority for exempting reports on transactions with domestic banks while requiring them for foreign banks transactions. Should the Treasury have reason to believe this Section 103.22 (b)(2) exception is not warranted, the Department should seek congressional consideration of specific legislative proposals to remedy the problems identified by Treasury under this subsection.

We are concerned that a literal reading of the proposed amendments to Section 103.22 (b) do not exempt financial institutions intercorporate dealings. While we assume this exclusion of currency transactions between foreign and domestic subsidiaries of financial institutions is an oversight, we believe these routine business of banking transactions are now and should remain exempt from the requirements of 31 CFR Part 103. We oppose any inclusion of currency transactions for reporting purposes between foreign and domestic subsidiaries of financial institutions under the proposed amendments to the currency reporting regulations.

In view of the foregoing comments, we respectfully suggest that the Treasury Department seriously reexamine the proposed amendments to 31 CFR Part 103 with a view to redrafting and resubmitting clearly necessary amendments to 31 CFR Part 103 for further public comment.

We trust that our comments will be accepted as constructive and offer our assistance in the redrafting of any proposed amendments to 31 CFR Part 103. We welcome the opportunity to discuss our comments with you at more length.

Sincerely yours,

  
S. R. Rosen  
Vice President



# Deak-Perera

THE INTERNATIONAL CURRENCY AND FINANCIAL SERVICES THAT BANKS BANK ON SINCE 1928

*Handwritten:*  
*Deak-Perera*  
*11-17-79*

November 13, 1979

Assistant Secretary (Enforcement and Operations)  
 Department of Treasury, Room 4308  
 1500 Pennsylvania Avenue, N. W.  
 Washington, D. C. 20220

RE: PROPOSED AMENDMENTS TO 31. C.F.R. SECT. 103.22

Dear Sir:

According to the Department of Treasury Notice of Proposed Rule-making, the contemplated amendments to 31 C.F.R. Section 103.22 are designed to require additional reporting by banks of their currency transactions over \$10,000 with foreign banks and financial institutions such as securities brokers, investment companies and currency exchanges. The Department's stated reason for the proposed amendment, i.e., obtaining background information helpful in enforcing the Currency and Foreign Transactions Reporting Act ("the Act"), represents a radical and unauthorized departure from the current use of the Secretary's rulemaking authority under the Act.

As discussed below, the proposed amendment is objectionable for three reasons:

- (1) Title 31 was not intended to authorize the Secretary to require reporting of normal business transactions to obtain background information.
- (2) The proposed amendment is aimed solely at banks but will require extensive additional reporting by financial institutions.
- (3) The effect of the proposed amendment on the financial institutions will be voluminous, unjustifiable duplicate reporting.

We therefore urge the Department to reconsider its proposal.

1. No authority to require reporting concerning normal business transactions.

ak-Perera

Assistant Secretary (Enforcement and Operations)  
November 13, 1979  
Page 2

All reporting currently required by Section 103.22 is of transactions which, because of the amount and the identity of the person affecting the transaction, may be unusual in nature and require further explanation. There has been, and can be, no finding that the transactions subject to the proposed amendment are presumptively unusual. Indeed, daily currency deposits, withdrawals and trades in excess of \$10,000 are the norm for a major currency exchange. For the Government to engage in a daily monitoring of such a company's transactions, for which records subject to subpoena are kept in the regular course of business by the company and the bank, opens the door to blatant economic surveillance unauthorized by the Act and unrelated to any legitimate purpose of the Act.

During the Congressional debate preceding passage of the House version of the Act, several Congressmen expressed concern that the Act would result in unwarranted invasions of privacy to indulge Federal curiosity. Congressional Record H. 16962-63 (May 25, 1970) (Congressmen Brown, Hanna and Annunzio). Congressman St. Germain responded that there was no intent to give Government agents the ability to conduct "fishing" expeditions, or to require reporting of normal business transactions. To the contrary, he assured the House reports would be required only of unusual transactions. He was confident that the Secretary would so exercise the discretion given to him. Id. at H. 16964.

Further, there are less intrusive ways of obtaining this type of general background information, which the Department has determined would be useful. Under the present Section 103.22, the Secretary may obtain a list of the customers whose transactions are exempted from reporting by Section 103.22(b). Additional information about these exempt customers can be obtained from the public record, other government agencies where permitted by law and by legal process when appropriate.

2. Proposed language changes far exceeds the stated purpose.

While we are deeply troubled by the lack of statutory authority and the potential for abuse inherent in the proposed amendment, of even greater concern is that the proposed language change goes far beyond the stated purpose of the Department



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Assistant Secretary (Enforcement and Operations)  
November 13, 1979  
Page 3

to require non-bank financial institutions to make the following additional reports of currency transactions involving over \$10,000 which are not required by the current regulations:

- (1) those originated by the financial institution,
- (2) those originated by or solely with foreign banks and,
- (3) those originated by or solely with other financial institutions.

Again, there is nothing presumptively unusual in currency transactions over \$10,000 between these institutions. Moreover, records of these transactions, subject to subpoena, are maintained in the United States in the regular course of business.

If the Department desires additional reports from banks that it has the legal authority to require, it should confine its rulemaking to that. The stated purpose underlying the proposed amendment does not justify this additional reporting by non-bank financial institutions.

3. The proposed language change would result in unjustifiable duplicative reporting.

The amount of duplicative reporting which would be engendered by requiring these additional reports from financial institutions is staggering and unjustifiable.

For example, upon receipt of over \$10,000 in currency from a foreign bank, a financial institution would be required to file Form 4879 and Form 4790. Under the proposed amendment, the financial institution and the bank would both have to file an additional form when this sum was deposited by the financial institution.

Indeed, every transaction between a bank and a financial institution, and between financial institutions, would be subject to double reporting on the same form. Likewise,

ak-Perera

Assistant Secretary (Enforcement and Operations)  
 November 13, 1979  
 Page 4

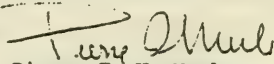
transactions between financial institutions and foreign banks would be subject to filing both the Form 4879 and the Form 4790 where international transportation was involved.

This Secretary has no authority under the Act to require duplicate reporting of the same information. As Congressman Patman made clear in the House hearings, there is no intent to place the "slightest unjustified burden on the free flow of international commerce". Congressional Record H. 16952 (May 25, 1970). Further, duplicative reports cannot have a "high degree of usefulness" as required by 31 U.S.C. Section 1051.

#### 4. Conclusion.

The proposed amendment to Section 103.22 would result in a daily monitoring of the currency transactions of numerous financial institutions. This intrusion is not authorized by Title 31 nor is it necessary to achieve the stated purpose of the proposed amendment. Further, the proposed language change does not limit itself to additional reporting by banks. It would require massive additional reporting by financial institutions, much of it duplicative in nature. This additional paper work, burdensome to the industry and of dubious value of the Government, is not authorized by the Act and far exceeds the stated purpose of the proposed amendments.

Very truly yours,



Pierre F. V. Merle  
 Vice President & General Counsel

PFVM:mad

Information/Item:  
WLB, EXT, PMS, ALM, JFS, TMG,  
RRR, RAW

No. 80.50(a) EXHIBIT 5  
(Cross-ref. No. BB-80-18  
80.50)

RECEIVED

BANKING ISSUANCE

Comptroller of the Currency  
Administrator of National Banks

Subject: Banking Bulletins

Type: Banking Bulletin

Subject: Amendments to 31 CFR 103

TO: The Chief Executive Officers of all National Banks, Regional Administrators  
and All Examining Personnel

Please refer to Banking Bulletin 80-7 dated March 28, 1980.

Enclosed is a copy of the Department of the Treasury's final rule amending certain sections of 31 CFR 103, Financial Recordkeeping and Reporting of Currency and Foreign Transactions. These amendments become effective July 5, 1980.

The major amendments in the revised final rule require: 1) a financial institution to file a currency report 15 days after the transaction occurs instead of the current 45 days; 2) the financial institution must retain a copy of the currency report for a period of 5 years; 3) the filing of a report of transactions with or originated by foreign banks; 4) permits a financial institution to grant an exemption to the reporting requirements only to established depositors who are United States residents and who operate a retail business in the United States. Entities which cannot be exempted are automobile, boat and airplane dealerships. Specifically named entities which can be exempted are sport arenas, race tracks, amusement parks, bars, restaurants, hotels, check cashing services licensed by state or local governments, vending machine companies, theaters, or withdrawals for payroll purposes by a depositor who operates a firm that regularly withdraws more than \$10,000 in order to pay its employees. These exemptions may be granted so long as the deposit relationship is maintained by a United States resident. Also exempted are transactions involving local or state governments, or the United States or any of its agencies or instrumentalities; 5) a record and reason thereof of each exemption granted under 4) above must be recorded at the time it is granted and, all exemptions must be maintained on a centralized list.

National Bank management should familiarize themselves with the revised final rule (copy attached), to assure complete compliance with 31 CFR 103. More intensified examination procedures to check for compliance are being implemented by National Bank Examiners. Thank you for your cooperation.

The originating office for this issuance is Office of the Chief National Bank Examiner (202) 447-1574.

RECEIVED

*Paul M. Homan*

Paul M. Homan  
Senior Deputy Comptroller  
for Bank Supervision

JUL 21 1980

ANS'D \_\_\_\_\_

## DEPARTMENT OF THE TREASURY

## Office of the Secretary

## 31 CFR Part 103

Financial Recordkeeping and  
Reporting of Currency and Foreign  
TransactionsAGENCY: Department of the Treasury.  
ACTION: Final rule.

**SUMMARY:** This rule amends the regulations governing the reporting of individual currency transactions in excess of \$10,000 (IRS Form 4789, Currency Transaction Report). The amended regulation (1) requires a financial institution to file a report within 15 days after a transaction occurs; (2) requires the institution to retain a copy of the report for 5 years; (3) requires the institution to record more specific information concerning a customer's identity; (4) further limits a bank's authority to exempt transactions from the reporting requirement; and (5) requires a bank to make and retain a record of the authorization of such an exemption.

EFFECTIVE DATE: July 7, 1980.

**FOR FURTHER INFORMATION CONTACT:** Robert J. Stankey, Jr., Adviser to the Deputy Assistant Secretary (Enforcement), 202-566-5630.

**SUPPLEMENTAL INFORMATION:** Treasury regulations (31 CFR Part 103) issued under the authority of the Currency and Foreign Transactions Reporting Act (Pub. L. 91-508, Title II, October 26, 1970) require that certain transactions involving currency be reported to the Secretary of the Treasury by financial institutions. A financial institution within the United States generally must file a Currency Transaction Report, IRS Form 4789, for each deposit, withdrawal or exchange of currency or other transaction which involves more than \$10,000 in currency. Under current regulations, currency transactions with established customers in amounts which do not exceed amounts commensurate with the customary conduct of the business, industry or profession of the customer concerned need not be reported provided that the financial institution makes a report listing such customers to the Secretary upon demand. Certain types of transactions with other financial institutions also need not be reported.

On September 9, 1979, there was published in the Federal Register a notice of proposed rulemaking to revise the regulations to require that (1) the reports be filed more timely; (2) more complete identification of the customer be furnished; (3) the financial institution be required to retain a copy of the report for five years; and (4) the exemption from the reporting requirement for transactions with an established customer maintaining a deposit relationship be limited to retail type businesses in the United States and that the location and character of the business be identified in the report of exempt customers furnished to Treasury. In addition, it was proposed that the exemption from reporting currency transactions with other financial institutions and foreign banks be removed in order to improve the Treasury Department's ability to obtain overall compliance with the regulations and alert the Department to unusual transactional movements of currency. The primary purpose of these changes would be to enhance the Department's capability to monitor and assure

compliance with the Currency and Foreign Transactions Reporting Act with regard to possible illegal or improperly reported flows of currency in the United States and abroad.

A total of 46 comments were received on this proposal. The more significant comments are summarized and discussed below.

**Discussion of Major Comments**

1. Many of the comments stated that no difficulty was anticipated in complying with the revisions. Some banks, while not anticipating any particular difficulty, felt that the proposed revisions were unnecessary, time consuming and costly. The comments indicate that a few banks in large metropolitan centers have a significant number of large transactions in currency. The vast majority of banks, however, do not appear to have a great many unusual currency transactions and, consequently, they will not be greatly affected by the change in reporting date or the information to be supplied.

2. In order to reduce unnecessary and unproductive reporting of routine currency transactions, banks have been able to exempt currency transactions with certain depositors where such transactions are customary and do not exceed amounts which the bank may

reasonably conclude are commensurate with the conduct of the lawful domestic business of that customer.

The proposed revision would have limited the exemption to an established depositor who is a U.S. resident and operates a retail type of establishment within the United States. A number of comments asked that the term "retail" be defined in the regulations and suggested that the exemption provision should include other types of businesses, as well as government agencies.

The final rule provides a definition of retail type of business and allows banks to also exempt currency transactions with state, local, or Federal government agencies where such transactions are customary and commensurate with the authorized activities of the agency. It is expected that those exemptions will be limited to retail type businesses that operate from commercial premises. Exemptions also may be granted when warranted for certain transactions of an established depositor who is a United States resident and operates a sports arena, race track, amusement park, bar, restaurant, hotel, check cashing service licensed by state or local governments, vending machine company, theater, or a firm that regularly withdraws more than \$10,000 in order to pay its employees in

currency. Banks may apply to the Assistant Secretary (Enforcement and Operations) for additional authority to grant an exemption if the bank believes that specific circumstances warrant such authority. Requests should be addressed as follows:

Exemption Staff, Room 1134, Office of Enforcement and Operations, U.S. Treasury Department, Washington, D.C. 20220.

3. One comment asked about the identification requirements for the customer's name and address, questioning whether the bank would be expected to verify the authenticity of the documents presented by the customer for identification. Bankers and shopkeepers normally ask for identification when a stranger presents a bank check or traveler's check to be cashed or accepted as payment. The same guidelines will apply when recording or reporting an unusual currency transaction.

4. Another comment asked whether microfilm and microfiche reproductions of currency reports will be accepted for purposes of record retention.



compliance by banks with the requirements of the regulations is checked by bank examiners employed by the Federal Reserve System, the Federal Deposit Insurance Corporation, or the Comptroller of the Currency. Savings and loan associations are checked by the Federal Home Loan Bank Board. In order for the bank examiner to determine that the regulations are being complied with, it is necessary that a copy of the report be available among the bank records. A microfilm or microfiche copy of the report is acceptable for this purpose.

5. One commenter asked whether the term other "domestic banks" used in the proposal would include savings and loan associations. It does. Section 103.11 of the regulations defines the term "bank" as including:

"(3) A savings and loan association or a building and loan association organized under the laws of any State or of the United States;"

Definitions contained in § 103.11 apply to each of the regulations in Part 103.

6. Another comment suggested that the proposal represents a potential invasion of a bank customer's reasonable expectation of privacy in his financial affairs. This is not so: reports are only required for unusual cash transactions involving more than \$10,000 by individuals or by businesses that have not been exempted and, as a result, relatively few bank transactions

are reported. Although commercial banks alone are estimated to have processed in excess of 30 billion transactions in 1979, only about 120,000 reports were filed, less than one for every 200,000 transactions.

In establishing the reporting requirements, Congress found that the reports can be highly useful in criminal, tax, and regulatory investigations. Experience has shown that, frequently, such transactions are indications of illegal activities.

7. Another comment opposed the requirement that intercorporate dealings be reported, such as those between foreign and domestic subsidiaries of financial institutions. However, the overwhelming majority of such transfers are made in the form of bookkeeping entries and are not reportable under the regulations. Information from the financial community and the Customs Service indicates that the number of physical transfers of large amounts of currency between related banking entities is relatively small. The additional information that will be provided as a result of the amended regulations is needed for law enforcement purposes. There is increasing evidence that large amounts of currency related to illegal activities is being smuggled out of the U.S. and deposited in banks in foreign countries to evade scrutiny by U.S. authorities.

The additional reports concerning these currency shipments will substantially improve the Treasury Department's ability to detect questionable movements of currency.

8. A nonbank financial institution commented on the duplication in the reporting of currency transactions between banks and nonbank financial institutions that would result under the proposed amendment. The final regulation has been changed to exempt the nonbank financial institution from reporting such transactions. Banks, however, must report them.

9. One bank commented that as initially proposed, the regulations appeared to require banks to determine the nationality of a person presenting a currency transaction before accepting the transaction. Such a procedure could have placed an undue burden on the banking industry. Consequently, the amendment has been changed to make it clear that a bank is required to follow the identification procedure required for aliens only when a bank has reason to believe that the customer is an alien. If, for example, when a banker requests a taxpayer identification number, the customer states that he does not have one because he is not a resident, the banker should request an official

document evidencing nationality or residence.

#### Drafting Information

The principal authors of this document are William W. Nickerson, Deputy Assistant Secretary (Enforcement) and Robert J. Stankey, Jr., Adviser to the Deputy Assistant Secretary (Enforcement). However, other personnel of the Office of Enforcement and Operations and the Office of the General Counsel participated in its development.

#### Authority and Issuance

Accordingly, the proposed regulations are being issued under the authority contained in the Currency and Foreign Transactions Reporting Act, 84 Stat. 1118, 31 U.S.C. 1051-1122, as follows:

#### Regulations

1. Section 103.22 of Part 103 of Title 31, Code of Federal Regulations, as revised, reads as follows:

#### § 103.22 Reports of currency transactions.

(a) Each financial institution shall file a report of each deposit, withdrawal, exchange of currency or other payment or transfer, by, through, or to such financial institution, which involves a transaction in currency of more than \$10,000. Such reports shall be made on forms prescribed by the Secretary and all information called for in the forms shall be furnished.

writing by the Assistant Secretary (Enforcement and Operations), this section shall not: (i) require reports of transactions with Federal Reserve Banks or Federal Home Loan Banks; (ii) require reports of transactions between domestic banks; or (iii) require reports by nonbank financial institutions of transactions with commercial banks.

(2) Except as otherwise directed in writing by the Assistant Secretary (Enforcement and Operations), a bank may exempt from the reporting requirement of this section the following:

(i) Deposits or withdrawals of currency from an existing account by an established depositor who is a United States resident and operates a retail type of business in the United States. For the purpose of this subsection, a retail type of business is a business primarily engaged in providing goods to ultimate consumers and for which the business is paid in substantial portion by currency, except that dealerships which provide automobiles, boats or airplanes are not included and their

transactions are not exempt from the reporting requirement of this section.

(ii) Deposits or withdrawals of currency from an existing account by an established depositor who is a United States resident and operates a sports arena, race track, amusement park, bar, restaurant, hotel, check cashing service licensed by state or local governments, vending machine company, or theater.

(iii) Deposits, or withdrawals, exchanges of currency or other payments and transfers by local or state governments, or the United States or any of its agencies or instrumentalities.

(iv) Withdrawals for payroll purposes from an existing account by an established depositor who is a United States resident and operates a firm that regularly withdraws more than \$10,000 in order to pay its employees in currency.

(c) In each instance the transactions exempted under paragraph (b) of this section must be in amounts which the bank may reasonably conclude do not exceed amounts commensurate with the customary conduct of the lawful, domestic business of that customer, or in the case of transactions with a local or state government or the United States or any of its agencies or instrumentalities, in amounts which are customary and commensurate with the authorized activities of the agency or instrumentality. This section does not permit a bank to exempt its transaction with a nonbank financial institution.

(d) A bank may apply to the Secretary for additional authority to grant an exemption to the reporting requirement.

... (b) of this section if the bank  
 ... that circumstances warrant  
 such an exemption. Such requests  
 should be addressed to:

Exemption Staff, Room 1134, Office of  
 Enforcement and Operations, U.S.  
 Treasury Department, Washington,  
 D.C. 20220.

(e) A record of each exemption  
 granted under paragraph (b) of this  
 section and the reason therefor must be  
 made at the time it is granted and all  
 such exemptions must be kept in a  
 centralized list. The record shall include  
 the names and addresses of the banks  
 referred to in paragraph (b)(1)(ii) of this  
 section, as well as the name, address,  
 business, taxpayer identification  
 number, and account number of each  
 depositor that has engaged in currency  
 transactions which have not been  
 reported because of the exemption  
 provided in paragraph (b)(2) of this  
 section. The record concerning the group  
 of depositors exempted under the  
 provisions of paragraph (b)(2) of this

section should also indicate whether the  
 exemption covers withdrawals,  
 deposits, or both, as well as the dollar  
 limit of the exemption. Upon the request  
 of the Secretary, a bank shall provide a  
 report containing the list of the bank's  
 customers whose transactions have  
 been exempted in accordance with the  
 provisions of paragraph (b) of this  
 section and such information as the  
 Secretary may require. The exemptions  
 may be reviewed by the Secretary who  
 may require a bank to file the usual  
 reports as prescribed in paragraph (a)  
 of this section with respect to any  
 customer whose transactions have been  
 previously exempted.

(f) Reports required under paragraph  
 (e) of this section must be mailed or  
 otherwise delivered to the Secretary  
 within 30 days after the bank receives  
 the Secretary's request.

2. Paragraph (a) of § 103.25 of Title 31,  
 Code of Federal Regulations, as revised,  
 reads as follows:

§ 103.25 Filing of reports.

(a) A report required to be filed by  
 paragraph (a) of § 103.22 shall be filed  
 within 15 days following the day on  
 which the transaction occurred. The  
 reports shall be filed with the  
 Commissioner of Internal Revenue on  
 forms to be prescribed by the Secretary.  
 All information called for in such forms  
 shall be furnished. A copy of each report  
 shall be retained by the financial  
 institution for a period of five years from  
 the date of the report.

Federal Regulations, as revised, reads as  
 follows:

§ 103.26 Identification required.

Before effecting any transaction with  
 respect to which a report is required  
 under paragraph (a) of § 103.22, a  
 financial institution shall verify and  
 record the name and address of the  
 individual presenting a transaction, as  
 well as record the identity, account  
 number, and the social security or  
 taxpayer identification number, if any,  
 of any person or entity for whose or  
 which account such transaction is to be  
 effected. Verification of the identity of  
 an individual who indicates that he is an  
 alien or is not a resident of the United  
 States must be made by passport, alien  
 identification card, or other official  
 document evidencing nationality or  
 residence. Verification of identity in any  
 other case may be by examination of a  
 document normally acceptable as a  
 means of identification when cashing  
 checks, for example, a driver's license or  
 a credit card. In each instance, the  
 method used in verifying the identity of  
 the customer shall be recorded on the  
 report.

Dated: May 28, 1980.

Richard J. Davis,  
 Assistant Secretary (Enforcement and  
 Operations).

(FR Doc. 80-17187 Filed 5-28-80; 8:45 am)  
 BILLING CODE 4810-25-01

THE FIRST NATIONAL BANK OF BOSTON  
INTEROFFICE COMMUNICATION

EXHIBIT 6

Operations 80-132

July 3, 1980

To: Officers in Charge, Banking Offices  
Tellers in Charge, Teller Branches

Subject: Large Currency Transaction Reports - Operating Procedure No. 64

The Treasury Department has amended the large currency transaction regulation effective July 7, 1980. The pertinent regulations are enumerated below:

A. Exemptions from Reporting

Any transaction in an account which is reasonable with the customary conduct of the lawful business of the customer in the following instances may be exempted:

1. Deposits and withdrawals by a retailer who provides goods to the ultimate consumer and who is paid substantially in currency. This exemption does not include automobile, boat, or airplane dealers.
2. Deposits and withdrawals by operators of sports arenas, race tracks, amusement parks, bars, restaurants, hotels, check cashing services licensed by the state, vending machine companies and theaters.
3. Deposits, withdrawals, exchanges, payments, and transfers by local or state governments or the United States or its agencies.
4. Withdrawals for payroll purposes by an established depositor who is a United States resident and regularly pays employees in cash.
5. Transactions with Federal Reserve Banks, Federal Home Loan Banks, and domestic banks. Reports are required from non-bank financial institutions.

B. Record of Exemptions Granted

A record of each exemption granted must be made which includes the following information:

1. Name and address
2. Type of business
3. Taxpayer identification number
4. Account number
5. Reason for exemption
6. Type of transaction exempt and dollar limit of exemption.

Tellers in Charge, Teller Branches

Large Currency Transaction Reports

The record should also include the names and addresses of domestic banks which have large currency transactions.

Exemptions for Federal Reserve Banks and Federal Home Loan Banks do not need to be recorded.

C. Transaction Reports

All non-exempt transactions, including those with non-bank financial institutions, must be reported. All information called for in the form must be shown.

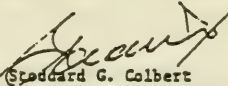
D. Identification of Customer

All customers must be properly identified in the following manner. The means of identification must be recorded on the transaction report:

1. Verify and record name and address of individual presenting a transaction, as well as identity, account number, and Social Security number for any person or entity whose account is affected.
2. Verify and record identification of aliens or non-residents. Acceptable identification is a passport, alien identification card, or other official document evidencing nationality or residence.

All transaction reports must be completed in accordance with these regulations. In addition, the Regiscope number should be noted in the margin.

Each office should submit new letters listing customers who are exempt from filing large currency transaction reports. These letters should include all the information required in paragraph B, "Record of Exemption Granted," and should be sent to Bert Cox no later than July 18.

  
Stoddard C. Colbert  
First Vice President  
Banking Offices Administration



July 29, 1980

Bert Cox, Manager  
Retail Banking Division  
BD-10-6

Large Currency Transaction Reports

It is requested that the following accounts be placed on the exempt list for reporting large currency transactions:

Huntington Realty  
95 Prince Street  
Boston, MA 02113

Real Estate Agency  
Heavy Cash Deposits

Federal Investments, Inc.  
95-96 Prince Street  
Boston, MA 02113

Heavy Cash Deposits

Bert Carr, Manager

Page 2

July 29, 1980

Gloria C. Cushing

Manager

North End Office

FEDERAL RESERVE BANK  
OF BOSTON

EXHIBIT 8

MEMORANDUMDate September 15, 1980To: Mr.Subject REPORT ON \$100 SHIPMENTS TOFrom: SWITZERLAND

The purpose of this memorandum is to inform you that we are reporting weekly to the Board of Governors the volume of \$100 notes shipped by the First National Bank of Boston to Switzerland.

As you know, in 1977 arrangements were made with the First National Bank of Boston (see memo attached) to provide them with large quantities of \$100 notes which they in turn were shipping to Switzerland. Since that time, the size of the transactions have grown considerably and, in the last few months, shipments to Switzerland have been averaging between \$50 - \$60 million per month. In order to meet the increased demand, arrangements were made with the Board to obtain \$100 notes from other Federal Reserve Districts.

The individual at the Board who arranges these transfers, became curious as to why the increase in demand for \$100 notes. When we explained the reason for the increase, she asked that we inform her weekly of the amount being shipped to Switzerland. It seems that someone at the Board is interested in knowing how much in large denomination currency is being shipped out of the country.

Presently, we are providing this information to the Board by telephone. I don't know what in particular the Board's interest is in this matter but believe that law enforcement agencies may be looking for the Fed to report unusually large transactions involving \$100 notes.



## EXAMINING ISSUANCE

Comptroller of the Currency  
Administrator of National Banks

Type: Examining Circular

Subject: 31 CFR 103, Financial Record-  
keeping and Reporting of Currency  
and Foreign Transactions

TO: All Regional Administrators and Examining Personnel

PURPOSE

This issuance informs you of revised procedures for use in determining compliance with 31 CFR 103.

BACKGROUND

Since the Bank Secrecy Act became effective in 1972, this Office has been responsible for assuring that national banks comply with the provisions of 31 CFR 103. Several recently adopted amendments to the Regulation have strengthened the reporting and recordkeeping requirements and have prompted a revision of the procedures used in determining national bank compliance with the Regulation. The enclosed procedures are the result of extensive field testing, and have been approved by the Department of the Treasury.

Specifically, revisions have been made to Section 102.4 of the Audit Program and to Sections 201.3, 201.4 and 201.5 of the Cash Program. Existing procedures in Sections 205.4 and 301.4 remain in effect. The revisions to the audit function questionnaire, internal control questionnaire and examination procedures must be performed in all general and specialized examinations, except where specifically waived by the Regional Administrator or his designee. If weaknesses are found, the revised verification procedures in Section 201.5 must be performed. Moreover, the full procedures will be used for designated institutions in certain targeted cities with an unusually high volume of cash transactions. Regional Administrators will designate such institutions.

The revised checklist (Form CC 1425-CL, Rev. 9/80) should be completed at all examinations started after May 15, 1981, and submitted with the examination report if any "no" answers are indicated. A detailed explanation of all "no" answers should continue to be included on the checklist (either on the face or the reverse side). Copies of the revised checklist will be forwarded to the Regional Offices for distribution.





## EXAMINING ISSUANCE

Comptroller of the Currency  
Administrator of National Banks

Type: Examining Circular

Subject: 31 CFR 103, Financial Record-  
keeping and Reporting of Currency  
and Foreign Transactions

The revised procedures are being distributed as a separate package so that they may be implemented immediately. They will be incorporated into the appropriate examination programs in the August, 1981 supplement to the Handbook.

### ORIGINATING OFFICE

Chief National Bank Examiner's Office, Commercial Examinations  
Division, (202) 447-1165.

Paul M. Homan  
Senior Deputy Comptroller  
for Bank Supervision

Enclosure

## AUDIT FUNCTION QUESTIONNAIRE

## Section 102.4

Cash Accounts

- o For the following areas, has the internal or external auditor, within the last 18 months, checked adherence to the provisions of 31 CFR 103. Specifically, the auditor(s) should test coverage of the following:
  - a. Reporting Requirements - Coverage requirements should be determined and should include a review of actual teller's work and Forms 4789 and 4790.
  - b. Recordkeeping Activities - Coverage should encompass a test of adherence to the in-house record retention schedule. (It is understood that this schedule should meet the requirements of the regulations.)
  - c. Exemptions - Coverage should include audit steps necessary to ascertain that the institution is maintaining a list of exempt customers which includes their retail affiliations as required by the regulations. Audit procedure should provide for a test of the reasonableness of the exemptions granted.
  - d. Foreign Accounts - Coverage in this area should require the auditor to ascertain that the institution has filed Form 90-22.1 declaring interest in a foreign financial account.

## INTERNAL CONTROL QUESTIONNAIRE

Cash Accounts

Section 201.4

31 CFR 103 - Compliance Questionnaire

- o Are Form 4789 and Form 4790 fully completed and submitted within 15 days?
- o Has the bank established, in writing, formal operating procedures to ensure compliance with the regulations? (It would be acceptable for certain small financial institutions which do not regularly handle large currency transactions to operate under standard procedures not reduced to writing.)
- o Do the written procedures cover the following:
  - a. Reporting Requirements - Do operating procedures set forth the requirements of the regulations and establish compliance guidelines with respect to large cash transactions and exemptions granted to customers?
  - b. Recordkeeping Requirements - Does the record retention schedule, at a minimum, include the record retention requirements of the regulations? Furthermore, requirements for the maintenance of lists of exempt customers with retail affiliations, and customers from whom taxpayer identification numbers have not been obtained, should be included.
- o Has the bank established a program of employee education with regard to the requirements of the regulations?
  - a. Are tellers, through an ongoing training program, apprised of the reporting requirements for large cash transactions?
  - b. Are operations personnel made aware of the current requirements of the regulations and does management periodically reinforce the importance of compliance?

## EXAMINATION PROCEDURES

Cash Accounts

Section 201.3

- o Review compliance with the Financial Recordkeeping and Currency and Foreign Transaction Reporting Act 31 CFR 103.22, 103.23, 103.33 and 103.34 by:
  - a. Reviewing the Audit Function Questionnaire found in the Internal and External Audits program to determine if the internal auditor is checking procedures for compliance with the Act. (If the bank does not have an internal audit function, ascertain that a program of management reviews or self audits has been established which encompasses the requirements of the regulations.)
  - b. Reviewing the file of reports submitted (4789 and 4790) and ascertaining that they are properly completed and filed as required by the regulations and established bank policy.
  - c. Obtaining a copy of the bank's list of exempt customers. Through a review of this document, determine:
    - . That its contents conform to the requirements of the regulations, (name, address, business, nine-digit Federal taxpayer identification number, reason for exemption, etc., (103.22(e))), and that the exemptions appear reasonable.
    - . That the institution has, in granting exemptions, adhered to its established policy.
  - d. Interviewing operations personnel (i.e., tellers, platform officers, selected branch managers) to ascertain whether they are sufficiently knowledgeable concerning the regulations and operating procedures to assure compliance. (In those instances where a branch visitation is impractical, selected branch managers may be contacted by telephone.)
  - e. Reviewing the totals of cash shipped to and/or received from the Federal Reserve Bank (reported on Form MD-113) or correspondent bank during the last six months. If that amount appears high in relation to the amount the bank has reported on Form 4789 for the last six months, discuss the findings with management.



## Section 201.3 (cont.)

- f. Meeting with and submitting the "Checklist" (Form CC 1425-CL) to either a senior official or compliance officer for completion and signature. Explain all "no" answers and forward the Checklist to the Regional Office with any reported "no" comments indicated. In the absence of any "no" answers retain the Checklist in the work papers.
- o Based on the results of the above, and on an evaluation of the bank's policies and procedures, determine if appropriate operating and auditing standards are in place and document the conclusion in the work papers. If appropriate standards are not in place, perform those verification procedures dealing with compliance with 31 CFR 103.

## VERIFICATION PROCEDURES

Cash Accounts

## Section 201.5

- o Perform the following procedures to determine if the bank is complying with 31 CFR 103:
  - a. Submit the Currency Distribution and Cash Control Center Letter and its attached Currency Shipment/Distribution Report to the officer in charge of the Center (See Appendix - 900.201.2 and 900.201.3 for sample letter and report.)
    - . If branches ship directly to a Federal Reserve Bank or a correspondent institution, then a copy of the Currency Distribution and Cash Control Center Letter must be submitted to every branch that does ship currency directly to a Federal Reserve or correspondent institution.
  - b. Check the records maintained at the Currency Distribution/Cash Control Center or the branch to ensure that the information in those records is in agreement with information provided by the Officer-in-Charge and the guidelines outlined below.
  - c. Personally address and send a Branch Office Letter to every branch (See Appendix 900.201.4 for sample letter).
  - d. In reviewing the information provided above, use the following criteria to select branches for on-site review:
    - 1. Branch requests for large denomination currency represent the most significant portion of their total currency requirements;
    - 2. Branch requests for large denomination currency are significantly greater than average branch requirements;
    - 3. Branch does not ship large denomination currency.
    - 4. Branch reports no exempt list;
    - 5. Branch manager would not sign the certification contained in the Branch Office Letter;
    - 6. Branch is characterized by unusual cash transactions with the Cash Control Center, Federal Reserve Bank, or correspondent institution; and

## Section 201.5 (cont.)

7. In the absence of significant leads, consider selection of branches for on-site review by sampling on a random basis.
- e. When at the office location, review the work of selected tellers within a specific time period. (Recommended time period: minimum five days, preferably ten days.) The selection of tellers should be governed by the bank's internal procedures. For example, if it is the bank's practice to direct all large currency transactions to specific tellers, concentrate on the work of those tellers. In the absence of such procedures, or if the procedures are not being followed, the work of all tellers should be reviewed. Take into account the time period allowed for filing Forms 4789 and 4790 in selecting the time frame in which the examination will be conducted. For example, if the date of examination is 12/31/80, the grace period for filing is 15 days, and you are reviewing transactions for 2 weeks, or 14 days, then review transactions at least 29 days before 12/31/80.
- f. Obtain, for selected tellers, completed cash proof sheets for as many consecutive dates as practical. From a day-to-day comparison of total \$50 bills and \$100 bills, determine specific tellers who experienced a significant (\$10,000) fall-off in those denominations that is not supported by the tellers' transactions. Incidents of this type should be reported to the EIC as possible incidents of currency washing.
- g. For those tellers selected above:
  1. Obtain and review tellers' documentation for the selected dates.
  2. Note any cash-in or cash-out transactions of more than \$10,000.
  3. In instances where such transactions are discovered, determine the type of transaction and if it was reported. Transactions with non-exempt customers which were not reported should be researched to ascertain if they are truly subject to the regulation.
  4. Review consecutive transactions which total in excess of \$10,000 to ascertain if made by or for one depositor.

## Section 201.5 (cont.)

5. The following transactions should be checked:
- . Cash checks -- items should be traced to ascertain if they are a cash-out of more than \$10,000 or part of a split transaction. Split transactions which do not involve a cash-out of more than \$10,000 should be eliminated.
  - . Cash deposits -- any transaction involving the receipt of more than \$10,000 cash.
  - . Savings withdrawal -- cash withdrawals of more than \$10,000.
  - . Personal money orders or official checks sold -- any sale for more than \$10,000 cash must be reported, even to an exempt customer. Be aware of consecutive items sold. A check of paid items could reveal that they were sold to the same customer.
  - . Savings bonds sold or cashed -- transactions involving more than \$10,000 cash.
  - . Official checks cashed -- cash-outs of more than \$10,000.
  - . Loans -- note teller receipt or pay-out of more than \$10,000 cash.
  - . Securities sold or purchased -- if institution acts as agent for an individual and the transaction involves more than \$10,000 cash.
- h. Obtain and review the list of exempt customers. Lists which appear inordinately long or which contain names of customers the size or nature of whose business would not ordinarily merit exempt status should be discussed with management. If after discussion with management, criticism may still be warranted, the matter should be referred to the Regional Office.



U-10 T

EXHIBIT 10

From the desk of

D. M. DORMER

1/4/82

Chen

This procedure is acceptable  
as typed ~~and~~ with the document  
we have in our possession regarding  
this. One question - who specifically  
in Banking Administration is the responsible  
party?

Dan

Bob Blackman is responsible

APPROVALS OF: OP 64REPORTING OF LARGE  
CURRENCY TRANSACTION

Mo.	...	...	...
1	25	82	

PLEASE ROUTE IN THE ORDER BELOW:

APPROVER	DATE Rec'd	DATE Fwd'd	INITIALS
J.F. CROWLEY	1/26	1/26	JFC
J.B. YOUNG	1/26		
KEN O'HARA	2/9	2/9	KOH
DAN DORMER	2/10	2/10	DD
J.F. STUCKE	1/26		JS

AFTER APPROVAL RETURN TO:

D. Channmugham X-5004

I.S.S. DIVISION

TELEPHONE

MAIL STATION

99/2524

A-539 (rev 2/81)

APPROVALS OF:

Date Circulated Mo. Day Year
1 25 82

PLEASE ROUTE IN THE ORDER BELOW:

APPROVER	DATE Rec'd	DATE Fwd'd	INITIALS
J.B. YOUNG	1/26		
T.M. GRIFFIN	1/26	2/1/82	TMG

AFTER APPROVAL RETURN TO:

D. Channmugham X-5004

I.S.S. DIVISION

TELEPHONE

MAIL STATION

99/2524

A-539 (rev 2/81)

ROUTING SLIP

APPROVALS OF:

Date Circulated Mo. Day Year
1 25 82

PLEASE ROUTE IN THE ORDER BELOW:

APPROVER	DATE Rec'd	DATE Fwd'd	INITIALS
J.B. YOUNG	1/26		
A. McKinnon	1/26	1/26	AM

AFTER APPROVAL RETURN TO:

D. Channmugham X-5004

I.S.S. DIVISION

TELEPHONE

MAIL STATION

99/2524

A-539 (rev 2/81)

JAN 23 1982

L. MCLEAN GRIFFIN

## Reporting of Large Currency Transactions

64

Revision 2

All Banking Offices  
Coin and Currency  
Banking Offices Administration

(This revision supersedes Operating Procedure No. 64, dated August 10, 1977 on the same subject. Changes are indicated by asterisks.)

The Bank Secrecy Act requires that all transactions involving more than \$10,000 in currency be reported to the Internal Revenue Service (IRS) unless the transaction is done with an exempt customer whose business regularly involves large currency transaction. See IRS Form - 4789 (rev 9/80) for details on exempt transactions. The Bank need not file the IRS Form - 4789 for transactions with Federal Reserve Banks, Federal Home Loan Banks, or other domestic banks.

NOTE: Multiple transactions which total more than \$10,000 in any one day should be treated as a single transaction if the Bank is aware of them.

Before beginning a non-exempt transaction the customer should be informed that the IRS will be notified of the transaction.

If the customer claims that he is on the exempt list with another banking office call that banking office and verify.

Procedures to comply with this legislation are as follows:

I. All Banking Offices and Coin and Currency

A. Exempt Transactions

1. Develop a list of exempt customers and send 2 copies to Banking Offices Administration. Retain a copy.
2. Advise Banking Offices Administration in writing of any additions to the exempt list. Retain a copy of the advice.

B. Non-Exempt Transactions

- \* 1. After the completion of any non-exempt transaction (deposit, withdrawal, exchange of currency, payments, or transfer) involving more than \$10,000 in currency in any one day, complete in triplicate a Currency Transaction Report (IRS Form - 4789, Revised Sept. 1980, Bank Form MC-134). Refer to "General Instructions" on Form - 4789.



# Operating Procedure

ISSUED THROUGH SYSTEMS RESEARCH

SUBJECT: Reporting of Large Currency Transactions

NUMBER:

64

Revision 2

DATE: March 5, 1982

TO: All Banking Offices  
Coin and Currency  
Banking Offices Administration

(This revision supersedes Operating Procedure No. 64, dated August 10, 1977 on the same subject. Changes are indicated by asterisks.)

The Bank Secrecy Act requires that all transactions involving more than \$10,000 in currency be reported to the Internal Revenue Service (IRS) unless the transaction is done with an exempt customer whose business regularly involves large currency transactions. See IRS Form - 4789 (rev 9/80) for details on exempt transactions. The Bank need not file the IRS Form - 4789 for transactions with Federal Reserve Banks, Federal Home Loan Banks, or other domestic banks.

- \* NOTE: Multiple transactions which total more than \$10,000 in any one day should be treated as a single transaction if the Bank is aware of them.

Before beginning a non-exempt transaction the customer should be informed that the IRS will be notified of the transaction.

If the customer claims that he is on the exempt list with another banking office call that banking office and verify.

Procedures to comply with this legislation are as follows:

I: All Banking Offices and Coin and Currency

A. Exempt Transactions

1. Develop a list of exempt customers stating each customer's name, address, business, taxpayer identification number, and account number.
2. Send a copy of the above list to Banking Offices Administration. Retain a copy.
3. Report to Banking Offices Administration in writing of any additions to the exempt list. Retain a copy of the list of additions.

B. Non-Exempt Transactions

- \* 1. After the completion of any non-exempt transaction (deposit, withdrawal, exchange of currency, payments, or transfer) involving more than \$10,000 in currency in any one day, complete in triplicate a Currency Transaction Report (IRS Form - 4789, Revised Sept. 1980, Bank Form MC-134). Refer to "General Instructions" on IRS Form - 4789.



March 5, 1982

2. The identifying number in Part V of the Currency Transaction Report will always be 04-2472499.

3. In all cases, take a regiscope picture and enter the number in the margin of the form.

\* NOTE: The name of the authorized signer must be typed or printed on the form.

4. Send 2 copies of the above report to Banking Offices Administration. Retain a copy.

## II. Banking Offices Administration

### A. Exempt Transactions

1. Receive a copy of the exempt list and any additions to the list from the banking offices or Coin and Currency.

2. Make the file of exempt customers available to IRS for review when requested to do so.

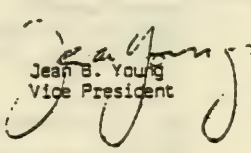
### B. Non-Exempt Transactions

1. Receive 2 copies of the the completed Currency Transaction Report from the banking offices or Coin and Currency.

\* 2. Send the original Currency Transaction Report to IRS, Ogden, Utah 84201, or hand carry it to the local IRS office by the 15th day after the date of the transaction.

\* 3. Retain a copy of the report for 5 years from the date of filing.

Systems Research Department

  
Jean B. Young  
Vice President

D. Charnmugham, Technical Writer  
Project No. 5763  
2826d



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

DEPUTY ASSISTANT SECRETARY

APR 28 1982

Dear Sir:

Please provide us with a report listing those customers whose currency transactions were exempt from the reporting requirements in 31 CFR 103.22(a) at any time during the period January 1 through April 30, 1982.

Under the provisions of the regulations (copy enclosed), a bank is required to report currency transactions (IRS Form 4789) in excess of \$10,000 to the Treasury Department. Although a bank may exempt deposits or withdrawals of certain depositors from the reporting requirement, it must upon request provide the Treasury Department with a report listing such depositors.

The reports should include the following information:

1. The name, street address, taxpayer identification number, and account number of the customer.
2. A brief description of the customer's business. For example: supermarket, restaurant, retail lumber, government services, etc.
3. Whether the exemption is for deposits, withdrawals, or limited to withdrawals for payroll purposes, and what the dollar limit is for each type of exemption granted to a customer.

The following is an example of a format that would be acceptable:

1. ABC Supermarket, Inc.  
1234 Dixie Highway  
Clear Springs, Florida 33123  
Retail Grocery  
Account Number  
Deposits: \$20,000  
Withdrawals: \$25,000  
TIN: 59-2345678
2. W. W. Smith  
BCD Citrus Growers  
Route 5  
Clear Springs, Florida 33123  
Orange Grower  
Account Number  
Withdrawals for Payroll: \$25,000  
TIN: 59-1234567

Your report should be mailed within thirty (30) days to the following address:

Robert J. Stankey, Jr.  
Office of Enforcement and Operations  
U.S. Treasury Department, Room 1454  
Washington, D. C. 20220

If you have any questions or would like additional information regarding this request, please have a member of your staff contact Mr. Stankey. His telephone number is 202-566-8022.

Sincerely,

(Signed)

Robert E. Powis  
Deputy Assistant Secretary  
(Enforcement)

Chief Executive Officer  
(Bank)  
(Address)

Enclosure



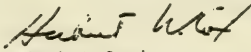
THE FIRST NATIONAL BANK OF BOSTON  
BOSTON, MASSACHUSETTS 02110

June 3, 1982

Robert J Stankey, Jr.  
Office of Enforcement and Operations  
U.S. Treasury Department, Room 1454  
Washington, D.C. 20220

Gentlemen:

In response to your request of 4/28/82 we are listing below the customers whose currency transactions were exempt from reporting requirements in 31 CFR 103.22 (a) during the period from January 1 through April 30, 1982

  
Hubert W. Cox  
Manager  
Banking Offices Administration





OFFICE OF THE SECRETARY OF THE TREASURY  
WASHINGTON, D.C. 20220

EXHIBIT 14

JUN 8 1982

Dear Mr. Cox:

Thank you for your letter dated June 3, 1982, which transmitted a list of the depositors whose transactions your bank has exempted from the currency transaction reporting requirements in 31 CFR 103.22. A review of the list indicates, however, that it does not meet the requirements of the regulations.

We have enclosed a copy of your list. Check marks have been placed next to the items that are incorrect or require additional information.

In addition, X's have been placed to the left of the name to designate depositors that do not appear to be a type of establishment that a bank can put on its exemption list without the prior approval of the Treasury Department. Before such approval can be given, it will be necessary to have further information concerning the nature of the customer's business; the source of the currency being deposited and use of currency being withdrawn; the frequency of deposits/withdrawals of currency in excess of \$10,000; the range of the amounts of currency deposited/withdrawn in recent months; and the maximum dollar limit of your proposed exemption for deposits or withdrawals.

The following information must be provided for each exemption:

- The local street address of the customer.
- A reasonable maximum dollar amount for each exemption granted. Usually there are different amounts for deposits and withdrawals. This information is not required, however, for savings and loans. Exemptions are not required for transactions of \$10,000 or less.
- The depositor's Federal taxpayer identification number (nine digits).
- The depositor's account number.
- Type of business.

If you have any questions regarding our request for your exemption list or the requirements in 31 CFR Part 103, please call me. My telephone number is 202-554-4022.

Sincerely,

/s/ Robert J. Stankey, Jr.

Robert J. Stankey, Jr.  
Adviser  
Office of Enforcement & Operations

Mr. Hubert W. Cox  
Manager  
First National Bank of  
Boston  
100 Federal Street  
Boston, Massachusetts 02110

<u>Name and Address</u>	<u>Type of Business</u>	<u>Account No.</u>	<u>Taxpayer I.D. No.</u>	<u>Type of Transaction</u>	<u>Dollar Limit</u>
X Huntington Realty 95 Prince St., Boston, MA 02113	Real estate agency	-	✓	Deposits	\$100,000

<u>Name and Address</u>	<u>Type of Business</u>	<u>Account No.</u>	<u>Taxpayer I.D. No.</u>	<u>Type of Transaction</u>	<u>Dollar Limit</u>
X Federal Investments, Inc. 95-96 Prince St., Boston, MA 02113	Real Estate mortgages		✓	Deposits	\$100,000





THE FIRST NATIONAL BANK OF BOSTON  
INTEROFFICE COMMUNICATION

June 21, 1982

To: Officer Addressed  
Banking Offices

Subject: Accounts Exempt from Large Currency Reports

A list of all accounts exempted from filing large currency transaction reports was submitted to the U.S. Treasury Department. The list has been returned with a request for more information for many of the accounts. The accounts exempted by your office for which more information is needed are noted on the attached list with an indication by the U.S. Treasury of the information needed. A copy of the U.S. Treasury's letter dated 6/18/82 indicating the type of information needed is enclosed.

Please send me an interoffice letter by July 12th giving the additional information requested.

H. W. Cox  
Manager  
Banking Offices Administration

Enclosure

# Requests for Exempt Account Details

Albion

Atlantic (Rohrer)

Berkley

Brighton

Chelsea (Klieser)

Kenmore

Manisay (Klieser)

North End

Roscoe

South End

State St.

Summer

Temple Place

Washington

West Roxbury

International (Cib)

THE FIRST NATIONAL BANK OF BOSTON  
BOSTON, MASSACHUSETTS 02110

June 28, 1982

Huntington Realty  
95 Prince Street  
Boston, MA 02113

Dear Sirs:

WE maintain a list at this office of accounts which we consider exempt from the Filing of large currency transactions.

It has now been directed that we obtain your Taxpayer ID number on or before July 12, 1982.

Your cooperation in this matter will be greatly appreciated.

Very truly yours,

Gloria C. Cushing  
Manager

GCC/mpb

THE FIRST NATIONAL BANK OF BOSTON  
BOSTON, MASSACHUSETTS 02110

June 29, 1982

Federal Investments, Inc.  
95-96 Prince Street  
Boston, MA 02113

Dear Sirs:

We maintain a list at this office of accounts which we consider exempt from the filing of large currency transactions.

It has now been directed that we obtain your Taxpayer ID number on or before July 12, 1982.

Your cooperation in this important matter will be greatly appreciated.

Very truly yours,

Gloria C. Cushing  
Manager

GCC/mpb



OFFICE OF THE SECRETARY OF THE TREASURY  
WASHINGTON, D.C. 20220

July 12, 1982

MEMORANDUM FOR THE FILES

Subject: First National Bank of Boston

Dan Dormer, who identified himself as being in charge of the cash room, called to discuss reporting requirements under the Bank Secrecy Act. He indicated that the bank was not in compliance.

Robert J. Stankey, Jr.



JUN 8 1982

Dear Mr. Cox:

Thank you for your letter dated June 3, 1982, which transmitted a list of the depositors whose transactions your bank has exempted from the currency transaction reporting requirements in 31 CFR 103.22. A review of the list indicates, however, that it does not meet the requirements of the regulations.

We have enclosed a copy of your list. Check marks have been placed next to the items that are incorrect or require additional information.

In addition, X's have been placed to the left of the name to designate depositors that do not appear to be a type of establishment that a bank can put on its exemption list without the prior approval of the Treasury Department. Before such approval can be given, it will be necessary to have further information concerning the nature of the customer's business; the source of the currency being deposited and use of currency being withdrawn; the frequency of deposits/withdrawals of currency in excess of \$10,000; the range of the amounts of currency deposited/withdrawn in recent months; and the maximum dollar limit of your proposed exemption for deposits or withdrawals.

The following information must be provided for each exemption:

- The local street address of the customer.
- A reasonable maximum dollar amount for each exemption granted. Usually there are different amounts for deposits and withdrawals. This information is not required, however, for savings and loans. Exemptions are not required for transactions of \$10,000 or less.
- The depositor's Federal taxpayer identification number (nine digits).
- The depositor's account number.
- Type of business.

exception. If you have any questions or need more information, please call me. My telephone number is 202-566-8022.

Sincerely,

*IRS*  
*Form 4789 for Part I signed*  
*4790*  
*Compliance Officer*

*Robert J. Stankey, Jr.*  
 Robert J. Stankey, Jr.  
 Adviser  
 Office of Enforcement & Operations

Mr. Hubert W. Cox  
 Manager  
 First National Bank of  
 Boston  
 100 Federal Street  
 Boston, Massachusetts 02110

201-0

UNITED STATES TREASURY  
COMPTROLLER OF THE CURRENCY

EXHIBIT 18

FINANCIAL RECORDKEEPING AND REPORTING OF CURRENCY  
AND FOREIGN TRANSACTIONSDATE Sept. 30, 1982  
NO. OF OFFICESAMOUNTS  
\$00200  
TOTAL ASSETS

NAME OF BANK

First National Bank of Boston

CITY

Boston

COUNTY

Suffolk

STATE

Massachusetts

The Department of the Treasury issued Regulations (Part 103, Title 31 CFR) effective July 1, 1972, to implement Title I and II of Public Law 91-508. The Regulations, revised, require banks to:

- Report to the customer customer statements (or from a point outside the United States of currency or monetary instruments in amounts in excess of \$1,000, except for shipments through the postal service or by common carrier;
  - Retain for two years records of all transfers into or out of the United States involving more than \$10,000;
  - Retain for two years certain other records which will be useful for law enforcement purposes;
  - Retain for two years certain other bank records relating to demand deposit accounts;
  - Secure a better custody of customer identification number with respect to cash account opened after June 30, 1972, or maintain a list of those customers who failed to provide a number; and
  - Report to the IRS currency transactions of more than \$10,000, unless exempted.
- Monitors in a general file required records of customers granted certain existing deposit accounts.

Under certain circumstances, the Regulations provide and several penalties for the failure to maintain the required records or to file the required reports. The penalties become more severe when the Regulations are violated in connection with certain Federal crimes.

The customer should determine 1) that the bank has established an adequate system for identifying covered transactions and for ensuring that they are properly reported and 2) that the employees who maintain records are conversant with the covered transactions and are properly instructed as to their responsibility with respect to the same. Institutions in which either of these two areas should be directed to the attention of management.

The following questions are designed to ascertain compliance with the Regulations. The customer should complete the questions based on information obtained as a result of personal examination of records and reports, as well as observations and interviews made by bank management.

## REPORTS REQUIRED TO BE FILED

1. (a) Except for shipments made through the postal service, or by common carrier, and certain shipments involving established depositors, does the bank file a Report of International Transportation of Currency or Monetary Instruments (Form 4789) whenever it ships to or receives from a point outside the United States currency or other monetary instruments, on any one occasion, in an aggregate amount exceeding \$1,000? (103.23) ☒ Yes ☐ No
- (b) Does the bank file a Currency Transaction Report, (Form 4789), of each deposit, withdrawal, exchange of currency or other transfer by, through, or to the bank which involves a transaction in currency, not exempted, of more than \$10,000 in accordance with the regulations? (103.23) ☒ Yes ☐ No
- (c) Does the bank maintain a list of those customers whose transactions have been exempted from the requirements of section 103.22? ☒ Yes ☐ No

## GENERAL RECORDKEEPING REQUIREMENTS\*

2. Does the bank retain a record of each extension of credit over \$5,000 except those secured by an interest in real property? (103.33) ☒ Yes ☐ No
- Does such record contain the name and address of the borrower, the amount, the nature and purpose of the loan and the date thereof? (103.33) ☒ Yes ☐ No
- (a) Does the bank attempt to obtain a taxpayer identification number for all new accounts? (103.34) ☒ Yes ☐ No
- (b) When respect to Certificates of Deposit issued or redeemed, does the bank maintain a record of the date of transaction and a description of the instrument as well as the customer's name, address, and taxpayer identification number; also, when Certificates of Deposit are issued, the method of payment? (103.34) ☒ Yes ☐ No
- (c) Does it have a list of those customers from whom it has been unable to obtain a number after making a reasonable effort? (103.34) ☒ Yes ☐ No
- Does the bank with respect to each deposit account retain the original or a copy of the following? (103.34) ☒ Yes ☐ No
  - (a) Each document granting signature authority over such accounts? (Signature cards should be retained for two years after accounts are closed.)
  - (b) Each statement ledger card or other record on each account, showing each transaction with respect to that account?
  - (c) Each cash over \$100 charged to deposit accounts, unless exempted by the Regulations?
- Does the bank retain for two years certain other bank records relating to demand deposit accounts sufficient to reconstruct a demand deposit account and trace a check in excess of \$100 deposited in such account through its deposit processing system or to make a description of a deposited check? (103.34) ☒ Yes ☐ No
- Are required records accessible within a reasonable period of time? (103.36) ☒ Yes ☐ No

## SPECIAL REQUIREMENTS FOR FOREIGN TRANSACTIONS\*

3. Does the bank retain a record of each instruction it gives or receives regarding a remittance or transfer of funds, currency, etc., of more than \$10,000 sent outside the United States? (103.33) ☒ Yes ☐ No
- Does the bank retain a copy of each item, including checks, drafts, or transfer of credits, of more than \$10,000 remitted or transferred outside the United States? (103.34) ☒ Yes ☐ No
- Does the bank retain a record (letter of transmittal, cash letter or application for a draft or transfer, etc.) of each remittance or transfer of funds, or of currency or other monetary instruments, checks, securities, or credit, of more than \$10,000 to a person, account or place outside the United States? A complete description is required. In certain instances, the records retained to satisfy the requirements referred to in items 9 and 10 above will also satisfy this requirement. (103.34) ☒ Yes ☐ No
- Does the bank retain a record of each check or draft in an amount in excess of \$10,000 drawn on or issued by a foreign bank when the domestic bank has paid or presented to a non-bank drawee for payment? (103.34) ☒ Yes ☐ No
- Does the bank retain a copy of each item, including checks, drafts or transfer of credit, of more than \$10,000, received directly, and not through a domestic financial institution, from a bank, broker, or dealer in foreign exchange outside the United States? (103.34) ☒ Yes ☐ No
- Does the bank retain a record (letter of transmittal, cash letter, etc.) of each record of currency, checks, etc., and transfer of funds of more than \$10,000 received from a bank, broker or dealer in foreign exchange from outside the United States? (103.34) ☒ Yes ☐ No
- Does the bank, with respect to each account in a foreign country over which it has signature authority or in which it has financial interest retain records which show: (103.34) ☒ Yes ☐ No
  - (a) the name in which the account is maintained;
  - (b) the number or other designation of the account;
  - (c) the name and address of the foreign bank or other person with whom the account is maintained;
  - (d) the type of account; and
  - (e) the maximum value of the account during the reporting period?
- Does the bank, with respect to each account in a foreign country over which it has signature authority or in which it has a financial interest report such relationship in accordance with the regulations? (103.34) ☒ Yes ☐ No

\*Unless otherwise indicated, the specified records that are created after June 30, 1972 must be retained for five years. (103.36)

Hubert Cox, Mgr. Metro Div. 11th Fl.  
Bank Citywide Processing Information to Customer

Customer should provide all details of apparent violations necessary for reporting to the Department of the Treasury.



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

DEPUTY ASSISTANT SECRETARY

SEP 21 1982

MEMORANDUM FOR: Karen J. Wilson  
Chief National Bank Examiner  
Comptroller of the Currency

FROM: Robert E. Powis /i/ R.E.P.  
Deputy Assistant Secretary  
(Enforcement)

SUBJECT: Compliance of Banks in Massachusetts  
with the Reporting Requirements of the  
Bank Secrecy Act

Recently, with the cooperation of James Tracey and your regional office in Boston, we conducted a review of compliance by Massachusetts banks with currency transactions reporting requirements. The review covered a four-month period from January through April, 1982 and included:

- (1) a review of customer exemption lists of all Massachusetts banks;
- (2) a survey of currency activity (deposits and shipments) of member banks with the Federal Reserve Bank of Boston; and
- (3) a comparison of currency activity of member banks with Currency Transaction Reports (IRS Forms 4789) filed with IRS during the period.

Our review indicates that compliance with the reporting requirements of the Bank Secrecy Act by banks in Massachusetts is very low. The number and dollar amount of Currency Transaction Reports filed by banks in Massachusetts during the four-month period reviewed is not consistent with the large volume of currency involved in the transactions between member banks and the Federal Reserve Bank during the same period. Moreover, each exemption list received from the banks required additional contact to perfect the information reported or to require removal from the lists of non-qualifying bank customers. This indicates a notable lack of understanding of the exemption provisions in the regulations.

The attached schedule lists the banks under your supervision that conducted substantial currency transactions with the Federal Reserve Bank of Boston during the period covered by the review. The schedule also provides data on the number and dollar volume of Currency Transaction Reports filed by each bank during the same period. Also attached is a U.S. Customs Service report of all Currency Transaction Reports filed by Massachusetts financial institutions during the review period.

All of the data indicates that a special compliance enforcement effort will be required, especially by the Federal agencies that supervise commercial banks, to raise the compliance level. I would appreciate your assistance in bringing this problem to the attention of the appropriate field officials who have direct responsibility for the examination of the banks in Massachusetts. We will, of course, be pleased to help you or your field personnel in any way we are able to.

I understand that an examination of the First National Bank of Boston is currently underway. Our review indicates that the First National Bank of Boston, which appears to purchase the largest amounts of currency from the Federal Reserve Bank of Boston (\$926 million during the period January-April, 1982), has a very low level of compliance with the Bank Secrecy Act. The officer in charge of currency operations at that bank, in contacts with my office regarding exemption lists, has informed us that he is not completely familiar with the provisions of the Bank Secrecy Act regulations. Consequently, I would appreciate receiving a special feedback report on the 31 CFR Part 103 compliance examination of the First National Bank of Boston. We are especially interested in the trans-shipments of currency by the bank to correspondent banks and internationally. The information concerning correspondent activity is needed to assess the compliance of the correspondent banks that do not deal with the Federal Reserve Bank.

If you have any questions regarding the attachments or our request for special assistance in Massachusetts, please call me or have a member of your staff contact Robert Stankey of this office.

Attachments



**SCHEDULE OF CURRENCY ACTIVITY WITH FEDERAL RESERVE BANK OF BOSTON  
COMPARED WITH CURRENCY TRANSACTION REPORT FILINGS  
JANUARY - JUNE, 1982**

<u>Name of Bank</u>	<u>ABA No.</u>	<u>Currency Activity at FED</u>		<u>Currency Transaction Reports</u>	
		<u>FED Shipments to Banks (In Thousands)</u>	<u>Bank Shipments to FED (In Thousands)</u>	<u>Forms 4789 (CTR'S) FILED</u>	<u>Dollar Volume (In Thousands)</u>
New England Merchants National Bank					
Shawmut Bank of Boston					
First National Bank of Boston					
Worcester County National Bank					
Security National Bank - Lynn					
Third National Bank of Hampden County					
Shawmut County Bank					
Old Colony Bank of Hampden County					
Shawmut Community Bank					



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

DEPUTY ASSISTANT SECRETARY

SEP 21 1982

Dear Mr. Sexton:

Recently we conducted a review of compliance by Massachusetts banks with currency transactions reporting requirements. The review covered a four-month period from January through April, 1982 and included:

- (1) a review of customer exemption lists of all Massachusetts banks;
- (2) a survey of currency activity (deposits and shipments) of member banks with the Federal Reserve Bank of Boston; and
- (3) a comparison of currency activity of member banks with Currency Transaction Reports (IRS Forms 4789) filed with IRS during the period.

Our review indicates that compliance with the reporting requirements of the Bank Secrecy Act by banks in Massachusetts is very low. The number and dollar amount of Currency Transaction Reports filed by banks in Massachusetts during the four-month period reviewed is not consistent with the large volume of currency involved in the transactions between member banks and the Federal Reserve Bank during the same period. Moreover, each exemption list received from the banks required additional contact to perfect the information reported or to require removal from the lists of non-qualifying bank customers. This indicates a notable lack of understanding of the exemption provisions in the regulations.

The enclosed schedule lists the banks under your supervision that conducted substantial currency transactions with the Federal Reserve Bank of Boston during the period covered by the review. The schedule also provides data on the number and dollar volume of Currency Transaction Reports filed by each bank during the same period. Also enclosed is a U.S. Customs Service report of all Currency Transaction Reports filed by Massachusetts financial institutions during the review period.

All of the data indicates that a special compliance enforcement effort will be required, especially by the Federal agencies that supervise commercial banks, to raise the compliance level. I would appreciate your assistance in bringing this problem to the attention of the appropriate field officials who have direct responsibility for the examination of the banks in Massachusetts. We will, of course, be pleased to help you or your field personnel in any way we are able to.

If you have any questions regarding the enclosures or our request for special assistance in Massachusetts, please call me or have a member of your staff contact Robert Stankey of this office.

Sincerely,

(Signed)

Robert E. Powis  
Deputy Assistant Secretary  
(Enforcement)

Mr. James L. Sexton, Director  
Division of Bank Supervision  
Federal Deposit Insurance  
Corporation  
550 17th Street, N.W.  
Washington, D.C. 20429

**Federal Deposit Insurance Corporation**

**SCHEDULE OF CURRENCY ACTIVITY WITH FEDERAL RESERVE BANK OF BOSTON  
COMPARED WITH CURRENCY TRANSACTION REPORT FILINGS  
JANUARY - JUNE, 1982**

ABA No.	Currency Activity at FED		Currency Transaction Reports	
	FED Shipments to Banks (In Thousands)	Bank Shipments to FED (In Thousands)	Forms 4789 (CTR'S) FILED	Dollar Volume (In Thousands)



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

DEPUTY ASSISTANT SECRETARY

SEP 21 1982

Dear Mr. Ryan:

Recently we conducted a review of compliance by Massachusetts banks with currency transactions reporting requirements. The review covered a four-month period from January through April, 1982 and included:

- (1) a review of customer exemption lists of all Massachusetts banks;
- (2) a survey of currency activity (deposits and shipments) of member banks with the Federal Reserve Bank of Boston; and
- (3) a comparison of currency activity of member banks with Currency Transaction Reports (IRS Forms 4789) filed with IRS during the period.

Our review indicates that compliance with the reporting requirements of the Bank Secrecy Act by banks in Massachusetts is very low. The number and dollar amount of Currency Transaction Reports filed by banks in Massachusetts during the four-month period reviewed is not consistent with the large volume of currency involved in the transactions between member banks and the Federal Reserve Bank during the same period. Moreover, each exemption list received from the banks required additional contact to perfect the information reported or to require removal from the lists of non-qualifying bank customers. This indicates a notable lack of understanding of the exemption provisions in the regulations.

The enclosed schedule lists the banks under your supervision that conducted substantial currency transactions with the Federal Reserve Bank of Boston during the period covered by the review. The schedule also provides data on the number and dollar volume of Currency Transaction Reports filed by each bank during the same period. Also enclosed is a U.S. Customs Service report of all Currency Transaction Reports filed by Massachusetts financial institutions during the review period.



All of the data indicates that a special compliance enforcement effort will be required, especially by the Federal agencies that supervise commercial banks, to raise the compliance level. I would appreciate your assistance in bringing this problem to the attention of the appropriate field officials who have direct responsibility for the examination of the banks in Massachusetts. We will, of course, be pleased to help you or your field personnel in any way we are able to.

If you have any questions regarding the enclosures or our request for special assistance in Massachusetts, please call me or have a member of your staff contact Robert Stankey of this office.

Sincerely,

(Signed)  
Robert E. Powis  
Deputy Assistant Secretary  
(Enforcement)

Mr. John E. Ryan, Director  
Division of Banking Supervision  
& Regulation  
Board of Governors of the  
Federal Reserve System  
20th & Constitution Avenue, N.W.  
Washington, D.C. 20551

## Federal Reserve

SCHEME OF CURRENCY ACTIVITY WITH FEDERAL RESERVE BANK OF BOSTON  
 COMPARED WITH CURRENCY TRANSACTION REPORT FILINGS  
 JANUARY - JUNE, 1982

Name of Bank	ADA No.	Currency Activity at FED		Currency Transaction Reports	
		FED Shipments to Banks (In Thousands)	Bank Shipments to FED (In Thousands)	Forms 4789 (CTR's) FILED	Dollar Volume (In Thousands)



# MEMORANDUM

Comptroller of the Currency  
Administrator of National Banks

First National Bank Region  
Marbor Plaza — Eighth Floor  
470 Atlantic Avenue  
Boston, Massachusetts 02110

Karen J. Wilson Chief National Bank Examiner  
Ralph Gridley Regional Administrator of National Banks Region One

From: Thomas E. Nollo **AKB**

Steve Connors **NBE**

Date: October 8, 1982

Subject: **31 CFR 103 Financial Recordkeeping Requirements**

During the examination of the First National Bank of Boston, a review was made for compliance with 31 CFR 103. A minor deficiency was noted due to lack of taxpayer identification information. This information is currently being prepared by Mgr. Cox. Also it was noted Mr. Cox has no control over the return of incorrect forms (4789) filed by the individual branches. In the future all returned forms will come to his attention.

Upon receipt of the letter from Deputy Assistant Secretary Robert E. Fowls dated Sep-21-1982, investigation was conducted to ascertain the discrepancy between the amounts of money shipped to and received from the Federal Reserve Bank of Boston. The First of Boston is a wholesale operation, selling large amounts of currency to various banks throughout New England. These amounts substantially account for the discrepancy noted. (See Exhibit A) Too, the names and addresses of the banks as referred to in 31 CFR 103.22 paragraph (b)(1)(ii) were not included on the banks exception list as defined by 31 CFR 103.22(e). In the future these banks will be included on the exception list so that the discrepancy in shipments can be easily ascertained.

Discussion with L.P. Dan Dornier, Officer in Charge Coin and Currency First of Boston, determined he was unaware of the regulations concerning International Transactions, and as such had not reported them. He stated that all International Currency shipments could be traced over the past four years. This would take approximately three weeks to complete. He has been in contact with a Mr. Stanley Enforcement and Compliance U. S. Treasury Department on this matter.

Approximately two additional man days were expended on this request.

( Exhibit A )  
Trans-Shipments of Currency  
FNB of Boston

Banks	Jan.	Feb.	Mar.	Apr.	Total
Banks	167.2	219.8	287.8	279.6	954.4
Paybanks	88.4	71.8	92.0	76.3	328.5
5-79 Branches	25.9	32.4	38.1	32.5	128.9
Outsiders	8.3	5.7	7.6	6.7	28.3
International	10.4	0	10.3	16.7	37.4
(Sales)	300.2	329.7	435.8	411.8	1,477.5
See Explanation Below*	(145.0)	(145.0)	(145.0)	(145.0)	(580.0)
	155.2	184.7	290.8	266.8	897.5
Total Fed Shipments	Jan.- Apr				
	925.7				
Total Bank Shipments	28.0				
	897.7				897.5

\* Represents currency (avg/month based on 4 2/3 weeks) that banks do not want the First of Boston to count due to fees charged for this service. These banks ship this currency directly to the Federal Reserve. The Federal Reserve then credits the First of Boston account.

All questions should be addressed to:

Dan Horner    Officer in Charge    Coin & Currency First National Bank of Boston  
 Bert Cox    Manager Metropolitan Division    First National Bank of Boston



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

DEC 8 1982

DEPUTY ASSISTANT SECRETARY

MEMORANDUM FOR: Karen J. Wilson  
Chief National Bank Examiner  
Comptroller of the Currency

FROM: Robert E. Powis. *RP*  
Deputy Assistant Secretary  
(Enforcement)

SUBJECT: Compliance of Banks in Massachusetts with  
the Reporting Requirements of the Bank  
Secrecy Act

On September 21, 1982, we wrote to you about the apparently low level of compliance with the reporting requirements of 31 CFR Part 103 by banks in Massachusetts. A list of banks that had substantial currency activity with the Federal Reserve Bank of Boston but had reported little currency activity with customers was provided to you at that time.

Although my memorandum indicated the need for a special compliance effort, it did not specifically request that we be informed concerning the nature of that special effort and your findings. I hope that you will be able to compensate for our oversight and provide us with the desired information. We realize that your actions may not, as yet, be complete; however, we would appreciate a status report in the interim. ✓

If you have any questions, please have a member of your staff contact Robert Stankey of my staff at 566-8022.



Report of Examination Completed 9-7-81

Violations of Law in 31 CFR 103

31 CFR 103 - Financial Recordkeeping and Reporting of Currency and Foreign Transactions

Although currency transactions between domestic banks are exempt from the reporting requirements of this regulation, noncompliance was noted with Section 103.22(e). This section states that a record of each exemption (including domestic banks) and the reason therefore must be made at the time the exemption is granted and that all exemptions be kept in a centralized list. Also, the record must include the names and addresses of all exempted banks. Corrective action was taken during the examination.

## ( Exhibit

Trans-Shipments of Currency  
FNB of Boston

<u>Banks</u>	<u>Jan.</u>	<u>Feb.</u>	<u>Mar.</u>	<u>Apr.</u>	<u>Total</u>
Banks	167.2	219.8	287.8	279.6	954.4
Baybanks	88.4	71.8	92.0	76.3	328.5
5-39 Branches	25.9	32.4	38.1	32.5	128.9
Customers	8.3	5.7	7.6	6.7	28.3
International (Swiss)	10.4	0	10.3	16.7	37.4
	<u>300.2</u>	<u>329.7</u>	<u>435.8</u>	<u>411.8</u>	<u>1,477.5</u>
See Explanation Below*	<u>(145.0)</u>	<u>(145.0)</u>	<u>(145.0)</u>	<u>(145.0)</u>	<u>(580.0)</u>
	155.2	184.7	290.8	266.8	897.5

Total Fed Shipments

Jan.- Apr  
925.7

Total Bank Shipments

28.0  
897.7

897.5

\* Represents currency (avg/month based on 4, 2/3 weeks) that banks do not want the First of Boston to count due to fees charged for this service. These banks ship this currency directly to the Federal Reserve. The Federal Reserve then credits the First of Boston account.

All questions should be addressed to:

Dan Dornier    Officer in Charge    Coin & Currency First National Bank of Boston  
Bert Cox        Manager    Metropolitan Division    First National Bank of Boston

# MEMORANDUM

EXHIBIT 23

Comptroller of the Currency  
Administrator of National Banks

First National Bank Region  
Marble Plaza — Eighth Floor  
470 Atlantic Avenue  
Boston, Massachusetts 02110

## FILES

Ralph W. Gridley, Regional Administrator of National Banks

January 4, 1983

12 CFR 31-103

Agent Mark Schwartz with the Customs Department visited with National Bank Examiner Stephen J. Conners and myself today to obtain an update of our examination findings in the recently completed First National Bank of Boston.

Mr. Schwartz has had an ongoing interest in the appropriate filings of Currency Transactions Reports (CTRs). His Agency has been involved with local agents from the IRS and FBI to determine if laundering operations are being conducted through our banking system. Based on comments he offered today, a local task force is being assembled under the direction of the U.S. Attorney's Office to conduct in-depth investigations. In addition to inquiring as to the availability of assistance to this task force from our Office, he made specific inquiry as to any violations that we may have discovered during our examination of the First National Bank of Boston.

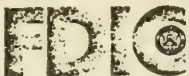
National Bank Examiner Conners presented an overview of his findings including the observation that he believed the bank to be in substantial compliance.

Mr. Schwartz did ask for a copy of Mr. Conners' internal memorandum to this Office, which we agreed to provide him. (Suspended pending approval from Serino). Blank copies of our work programs to insure compliance with 12 CFR 31 had been previously supplied.

The visitor did offer that the initial meeting of the task force members will be convening in the near future. In response to his request we agreed to participate at that meeting to offer whatever input we could in terms of their developing a strategy. He was also advised that we would check with our Washington Office to ascertain what role we could play in assisting them, and also to the extent to which we would be allowed to share with them specific information obtained during the course of an examination.

CC: Robert Serino - E & C Div.

RWG:gcs

EXHIBIT 24

FEDERAL DEPOSIT INSURANCE CORPORATION, Washington, D.C. 20429

OFFICE OF DIRECTOR - DIVISION OF BANK SUPERVISION

January 25, 1983

Mr. Robert E. Powis  
Deputy Assistant Secretary (Enforcement)  
Department of the Treasury  
15th and Pennsylvania Avenue, N.W.  
Washington, D.C. 20220

Dear Mr. Powis:

Subject: Treasury Study of Nine Massachusetts Banks Suggesting  
a Low Level of Compliance with 31 C.F.R. Part 103

Enclosed are copies of the last eight Financial Recordkeeping and Reporting of  
Currency Transaction Examination Reports for the nine banks and interim report  
in regard to the above.

Recently, . . . was  
examined and special visitations were conducted at  
and

The examination/visitations did not reveal any substantial  
noncompliance with 31 C.F.R. Part 103, and the noted technical deficiencies  
were brought to the attention of management.

With the exception of the  
all the remaining banks are scheduled for examinations within the next six  
months; a special visitation of the will be conducted in the near  
future.

If you have any questions, please contact Michael D. Bianchetto of my staff at  
389-4415.

Sincerely,

*Robert P. Gough*  
Robert P. Gough  
Associate Director

Enclosures

EXHIBIT 25

120.12

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON, D. C. 20551



DIVISION OF BANKING  
SUPERVISION AND REGULATION

January 31, 1983

Mr. Robert Stankey  
Office of Enforcement  
and Operations  
U.S. Treasury Department  
Room 1458  
Washington, D.C. 20220

Dear Mr. Stankey:

Enclosed are two memos concerning compliance examinations of State member banks for recordkeeping and reporting requirements of 31 CFR Part 103 that your office requested.

As is indicated, our examiners found no major compliance exceptions at the two banks in Massachusetts that were in question. With regard to the bank in Florida, we will send you a similar memo for the compliance review upon completion of the examination.

If you have any questions regarding the enclosures please contact me on (452-2771).

Sincerely,

A handwritten signature in dark ink, appearing to read "Alan Osterholm".

Alan Osterholm  
Senior Audit and EDP  
Examinations Coordinator

Enclosure



100-1071

FEDERAL RESERVE BANK  
OF BOSTON

BOSTON, MASSACHUSETTS 02106

January 18, 1983

Mr. John E. Ryan  
Director  
Division of Banking Supervision  
and Regulation  
Board of Governors of the  
Federal Reserve System  
Washington, D.C. 20551

Dear Jack:

In response to your letter of October 13, 1982 members of my staff have conducted special Bank Secrecy Act compliance reviews of the

, and the

The review incorporated the procedures of Modules I and II as well as evaluations of each bank's currency activity and analysis of correspondent banking relationships that involved currency services.

Personnel at both institutions were found to be up-to-date and well informed of the reporting requirements. Money center operations were reviewed at the two institutions and currency shipments to correspondent banks analyzed. Reviews were conducted at six branches of the

Branch personnel

were questioned about the reporting requirements and branch operations were reviewed for compliance.

No violations were found at the branches of either institution and only minor clerical errors were found on the completed 4789 forms which were reviewed. The examiners emphasized to the personnel of both banks the importance of correctly preparing the 4789 forms and the Treasury Department's vigorous enforcement efforts concerning the Bank Secrecy Act. Exempt customer lists were reviewed at both institutions and they were found to consist of customers which were eligible for exemption.

The analysis of correspondent currency services revealed that both institutions were large suppliers of currency to their correspondent banks. For the month of November, supplied \$26 million (to 14 institutions) and supplied \$17 million (to 11 institutions) to their respective correspondent banks. November is considered by both banks to be an "average" month for currency shipments to correspondent institutions. The overall currency positions in each of the reviewed banks are monitored daily in order to maintain the lowest acceptable amount of currency for normal operations.

Overall both banks were found to be in compliance, with the only substantive criticism of the examiners being the lack of any auditing procedures by [redacted] with respect to the regulation. [redacted] personnel have been notified of this deficiency and it has also been cited in the latest report of examination, which is currently in the process of being written.

Any questions your staff may have concerning the specifics of the reviews should be directed to Michael C. Reveliotty, Examiner (617) 973-3327.

Sincerely,

  
Richard E. Randall  
Vice President

Mailed

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON, D. C. 20561

DIVISION OF BANKING  
SUPERVISION AND REGULATION

October 13, 1982

Mr. Richard E. Randall  
Vice President  
Federal Reserve Bank of Boston  
600 Atlantic Avenue  
Boston, Massachusetts

Dear Dick:

The Treasury Department recently conducted a review of Massachusetts banks' compliance with the Bank Secrecy Act reporting requirements. A copy of the Treasury's review, which suggests that Massachusetts banks are not in compliance with the reporting requirements, is enclosed.

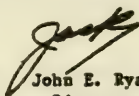
In an effort to cooperate with the Treasury and to raise the level of compliance by Massachusetts banks it is necessary that your staff begin to use Modules I and II of the examination procedures set forth in SR-669, dated February 11, 1981, to test Bank Secrecy Act compliance as part of your examination program for all State member banks located in Massachusetts.

The Treasury has also identified two State member banks that may be in extensive noncompliance with the reporting requirements:

Accordingly, your staff should conduct special Bank Secrecy Act compliance reviews, using Modules I and II of the examination procedures, in these banks as soon as conveniently possible. In addition to the normal procedures, each review should include an evaluation of the bank's currency activity and an analysis of the bank's correspondent banking relationships that involve currency transportation services.

Upon completion of the special bank reviews, please forward a report of your findings to Kathleen M. Cahill of my staff. If you have any questions regarding this matter please call Ms. Cahill at 452-3506.

Sincerely,

  
John E. Ryan  
Director

Enclosures

HYATT REGENCY CHICAGO

HYATT REGENCY CHICAGO

10  
East of Boston

Shamrock  
Worcester County, MA  
12-31-82 in process  
requested to do verification  
procedures

3-25-83 N/B of Hampden County  
ex: 3-14-83 requested  
verification procedures

Shamrock Bristol County  
N/B - New Bedford

5-83 - Will do verification  
procedures

what would be helpful if we  
could document what procedures  
they want

Call 800 228 9000 for the split of Hyatt Worldwide.

Region 1 Banks -> Ray Durham

31 SEP 1983

Bk of East England Ltd  
ex: 5-28-82 no verification  
did find any problems  
Bk had controls and list of  
no violations listed except  
will be examined 6-83. Customer

Shamrock Bank of Boston

Bank of New

11-30 - no violation  
no verification procedure  
did wind-up with audit  
and it is centralized.  
Some branches didn't report.  
looked at them and found  
reason for branching to  
report

EXHIBIT 26  
Call 800 228 9000 for the split of Hyatt Worldwide.

(3)

Richard Alexander - EIC Attorney

Ray Durham - Talk about Fitch Boston

Threats requests:

- 1) Feedback on compliance
- 2) List of cash shipments to and from correspondent banks

4 month period Jan-April  
shipments \$6mm cumulative

3) Other banks noted will need

full compliance

4) Treasury may want same

info as 2 above for their

5) Need examiner keep track

of time spent on (2)

6) Let us know how long it took

will do!

Copy of work papers  
submitted  
memo on results

First National of Boston

Involved in foreign trans-

actions - Affiliates in

international banks -

want procedures done

w/ 95mm - lot transhipped

to savings banks - some to

indiv affiliates - CIR 4790/2

shows they are not filing

a lot

Several banks with surplus

deposits -

Preliminary - may have a

compliance problem in not

filing

849-2337 Jordan

Juff



*Chen*REQUEST FOR APPROVAL / SIGNATURE

From: R. Julie Linville, NBE, Commercial Examinations Division

Date: March 24, 1983

Item: Letter

Subject: 31 CFR 103 Compliance in Massachusetts National Banks

Recommendations:

Signature

Comments:

Return to: JCampbell X1165

	Initiator	Reviewer	Reviewer	Reviewer	Reviewer
Surname	Linville	Tracy	Wilson (sign)		
Initials / Date	RL 3-24-83	PT 3/30			
Reviewer	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer



---

Comptroller of the Currency  
Administrator of National Banks

---

Washington, D.C. 20219

April 5, 1983

Mr. Robert E. Powis  
Deputy Assistant Secretary (Enforcement)  
Department of the Treasury  
Washington, D.C. 20220

Dear Mr. Powis:

We appreciate the information received from you about 31 CFR 103 compliance in Massachusetts national banks. Our Boston regional office reviewed the data and will expand compliance procedures in several of the banks listed. We would like to report on the status of those examinations.

The Shawmut Bank of Boston N.A., Boston, Massachusetts is scheduled for examination in June 1983. Our examiners will use 31 CFR 103 verification procedures during the examination.

Our office examined the Bank of New England N.A., Boston, Massachusetts, in November 1982. The examiners did not disclose any violations of 31 CFR 103. They considered the bank's audit coverage of the regulation adequate. Because some branches of the bank had not reported any large currency transactions, a more in-depth review was performed at those branches. However, the examiners did not discover any reportable transactions.

The First National Bank of Boston, Boston, Massachusetts, was examined in August 1982 using expanded procedures. As you requested, we forwarded a copy of the working papers for 31 CFR 103 to Mr. Robert Stankey.

An examination of the Worcester County National Bank, Worcester, Massachusetts, is in process. The regional office instructed the examiners to perform 31 CFR 103 verification procedures.

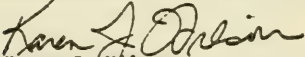
An examination of the Third National Bank of Hampden County, Springfield, Massachusetts, was started on March 14, 1983. Examiners will perform verification procedures.

Shawmut Bank Bristol N.A., New Bedford, Massachusetts, is scheduled for examination in May 1983. The examiners will perform verification procedures.

We will forward information about violations for any of the Massachusetts banks examined through our regular 31 CFR 103 quarterly report.

If you have further questions, please let me know.

Sincerely,

A handwritten signature in dark ink, appearing to read "Karen J. Wilson", is written over the typed name.

Karen J. Wilson  
Chief National Bank Examiner

cc:

Royal Dunham, DRA for Planning and Operations  
Boston, Massachusetts



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

DEPUTY ASSISTANT SECRETARY

APR 27 1983

MEMORANDUM FOR: Karen Wilson  
Chief National Bank Examiner  
Comptroller of the Currency

FROM: Robert E. Powis *RP*  
Deputy Assistant Secretary  
(Enforcement)

SUBJECT: IRS Investigation of First National Bank  
of Boston

We have authorized the IRS to undertake an investigation of possible criminal violations of 31 CFR Part 103 at the First National Bank of Boston, Boston, Massachusetts. To preclude any interference with that investigation, please instruct your examiners not to examine the bank for compliance with the regulations until further notice.

AO 120 (Rev. 10/82)

## SUBPOENA TO TESTIFY BEFORE GRAND JURY

JOSEPH V. LEOPE  
93-66035  
EXHIBIT 29  
945  
83-MA-7-001

United States District Court		DISTRICT Massachusetts
TO: Keeper of Records First National Bank 100 Federal Street Boston, MA		SUBPOENA FOR  <input type="checkbox"/> Person <input checked="" type="checkbox"/> Document or Object
YOU ARE HEREBY COMMANDED to appear in the United States District Court at the location, date, and time specified below to testify before the Grand Jury in the above entitled case.		
PLACE  1107 John W. McCormack Post Office and Courthouse Boston, MA 02109		COURTROOM  Grand Jury Room  DATE AND TIME  05/17/83 10:00 a.m.
YOU ARE ALSO COMMANDED to bring with you the following document(s) or object(s): <sup>(1)</sup>		
<ol style="list-style-type: none"> <li>1. <del>all currency transaction reports filed in 1981, 1982, and through April 1, 1983.</del></li> <li>2. <del>all internal records for all currency transactions in excess of \$10,000.00 - including, but not limited to, large cash transaction ledgers, vault receipts and other documentation of such transactions, for 1981, 1982, and through April 1, 1983.</del></li> <li>3. <del>all list of persons and entities currently exempted from the reporting requirements of the bank secrecy act, Title 31, United States Code and all such lists maintained since January 1, 1981.</del></li> </ol>		
XX Please see additional information on reverse		
This subpoena shall remain in effect until you are granted leave to depart by the court or by an officer acting on behalf of the court.		
CLERK JOSEPH V. LEOPE	DATE	
(BY) DEPUTY CLERK <i>Walter J. Doherty</i>	April 27, 1983	
This subpoena is issued on application of the United States of America by:		NAME, ADDRESS AND PHONE NUMBER OF ASSISTANT U.S. ATTORNEY Patrick M. Walsh, Special Attorney U.S. Department of Justice 1905 John W. McCormack Post Office and Courthouse Boston, MA 02109 (617) 223-3390

1) If not applicable, enter "None."



RETURN OF SERVICE <sup>(1)</sup>		
RECEIVED BY SERVER	DATE 5-3-83	PLACE Boston, MA
SERVED	DATE 5-5-83	PLACE Boston, MA
SERVED ON (NAME) Harry Bigwood		
SERVED BY Joseph V. Leone		TITLE Special Agent
STATEMENT OF SERVICE FEES <sup>(2)</sup>		
TRAVEL	SERVICES	TOTAL
DECLARATION OF SERVER <sup>(3)</sup>		
<p>I declare under penalty of perjury under the laws of the United States of America that the foregoing information contained in the Return of Service and Statement of Service Fees is true and correct.</p>		
<p>Executed on _____ Day _____</p> <p style="text-align: right;">Signature of Server _____</p> <p style="text-align: right;">Address of Server _____</p>		
ADDITIONAL INFORMATION		
<p>4. all signature cards and monthly bank statements, in the possession or control of First National Bank of Boston for the following accounts for 1981, 1982 and through April 1, 1983:</p> <p style="margin-left: 40px;">a) all accounts in the name of Huntington Realty, 95 Prince Street, Boston, Massachusetts, including but not limited to account number _____</p>		

<sup>(1)</sup> As to who may serve a subpoena and the manner of its service see Rule 17(c), Federal Rules of Criminal Procedure, or Rule 45(c), Federal Rules of Civil Procedure.

<sup>(2)</sup> "Fees and mileage need not be tendered to the witness upon service of a subpoena issued on behalf of the United States or an officer or agency thereof" (Rule 45(c), Federal Rules of Civil Procedure; Rule 17(d), Federal Rules of Criminal Procedure) or on behalf of certain interest parties and criminal defendants who are unable to pay such costs (28 USC 1825, Rule 17(b) Federal Rules of Criminal Procedure).

d) Federal Investments, Inc.  
96 Prince Street  
Boston, Massachusetts 02113

including, but not limited to, Account  
Number

6. A list of all foreign banks maintaining a correspondent account, or other account relationship with the First National Bank, as of 4/1/83.

## SUBPOENA TO TESTIFY BEFORE GRAND JURY 83-WA-7-011

<b>United States District Court</b>	<b>DISTRICT</b> Massachusetts
<b>TO:</b> Keeper of Records First National Bank Northgate Shopping Center Revere, MA	<b>SUBPOENA FOR</b>  <input type="checkbox"/> Person <input checked="" type="checkbox"/> Document or Object

YOU ARE HEREBY COMMANDED to appear in the United States District Court at the location, date, and time specified below to testify before the Grand Jury in the above entitled case.

<b>PLACE</b>  1107 John W. McCormack Post Office and Courthouse Boston, MA 02109	<b>COURTROOM</b>  Grand Jury Room
	<b>DATE AND TIME</b>  05/17/83 10:00 a.m.

YOU ARE ALSO COMMANDED to bring with you the following document(s) or object(s):<sup>(1)</sup>

1. all currency transaction reports filed in 1981, 1982, and, through April 1, 1983.
2. all internal records for all currency transactions in excess of \$10,000.00 - including, but not limited to, large cash transaction ledgers, cash in - cash out slips, receipts and other documentation of such transactions, for 1981, 1982, and through April 1, 1983
3. a list of all currency transactions over \$5,000.00, involving customers whose currency transactions are exempt from reporting requirements under the bank secrecy act, Title 31, United States Code, and 31 CFR 103.22(a), for 1981, 1982 and through

<sup>(1)</sup> Please use additional information on reverse

This subpoena shall remain in effect until you are granted leave to depart by the court or by an officer acting on behalf of the court.

<b>FILED</b> J. McGRATE	<b>DATE</b> May 3, 1983
<b>DEPUTY CLERK</b> <i>Walter J. Doherty</i>	
This subpoena is issued on application of the United States of America by:	<b>FILE, ADDRESS AND PHONE NUMBER OF ASSISTANT U.S. ATTORNEY</b> Patrick M. Walsh, Special Attorney U.S. Department of Justice 1905 John W. McCormack Post Office and Courthouse

RETURN OF SERVICE<sup>(2)</sup>

RECEIVED BY SERVER	DATE	PLACE
SERVED	DATE	PLACE

SERVED ON (NAME)

SERVED BY	TITLE
-----------	-------

## STATEMENT OF SERVICE FEES

TRAVEL	SERVICES	TOTAL
--------	----------	-------

DECLARATION OF SERVER<sup>(3)</sup>

I declare under penalty of perjury under the laws of the United States of America that the foregoing information contained in the Return of Service and Statement of Service Fees is true and correct.

Executed on \_\_\_\_\_  
 Date Signature of Server  
 Address of Server

## ADDITIONAL INFORMATION

3. April 1, 1983, including the nature and amount of each transaction and all parties to each transaction.
4. a list of persons and entities currently exempted from the reporting requirements of the bank secrecy act, Title 31, United States Code.
5. a list of all foreign banks maintaining a correspondent account, or other account relationship with the First National Bank, as of 4/1/83.

(2) As to who may serve a subpoena and the manner of its service see Rule 17(d), Federal Rules of Criminal Procedure, or Rule 43(c), Federal Rules of Civil Procedure.

(3) Fees and mileage need not be tendered to the witness upon service of a subpoena issued on behalf of the United States or an officer or agency thereof (Rule 43(c), Federal Rules of Civil Procedure; Rule 17(d), Federal Rules of Criminal Procedure) or on behalf of certain insolvent parties and criminal defendants who are unable to pay such costs (28 USC 1825, Rule 17(b) Federal Rules of Criminal Procedure).



THE FIRST NATIONAL BANK OF BOSTON  
INTEROFFICE COMMUNICATION

EXHIBIT 30

To: Hubert W. Cox  
Manager

July 8, 1983

Subject: Exemption List for Large Currency Transactions

Enclosed please find the completed exemption list for large currency transactions that was requested by Robert J. Stankey, Jr. on June 8, 1982.

I hope that this is an acceptable format and the information requested.

Sincerely,

Daniel M. Dormer  
Vice President

DMD/umf

Enclosure

cc: Leslie Carter





THE FIRST NATIONAL BANK OF BOSTON  
BOSTON, MASSACHUSETTS 02110

July 26, 1983

Mr Robert J. Stankey, Jr.  
Office of Enforcement and Operations  
U.S. Treasury Department, Room 1454  
Washington, D.C. 20220

Dear Mr. Stankey:

I enclose an updated list of customers whose currency transactions are currently being treated by the First National Bank of Boston as exempt from the reporting requirements of 31 C.F.R. 103.22. I also enclose a "Request for Approval of Customers for Exempt List," which lists eleven customers who have been removed from the exempt list pursuant to your letter of June 8, 1982, but who we believe may properly be reinstated for the reasons stated in the Request.

If you have any questions about the updated list or would like any further information in order to make your determination concerning the eleven companies, please let us know.

Very truly yours,

Hubert W. Cox  
Manager  
Banking Offices Administration

Enclosure



OFFICE OF THE SECRETARY OF THE TREASURY  
WASHINGTON, D.C. 20220

AUG 19 1983

Dear Mr. Cox:

Thank you for your letter dated July 26, 1983, which transmitted an amended list of the depositors whose transactions your bank has exempted from the currency transaction reporting requirements in 31 CFR 103.22. A review of the list indicates, however, that it still does not meet all of the requirements of the regulations.

We have enclosed a copy of your list. Check marks have been placed next to the items that are incorrect or require additional information.

The following information must be provided for each exemption:

- The local street address of the customer.
- A reasonable maximum dollar amount for each exemption granted. Usually there are different amounts for deposits and withdrawals. This information is not required, however, for savings and loans. Exemptions are not required for transactions of \$10,000 or less.
- The depositor's Federal taxpayer identification number (nine digits).
- The depositor's account number.
- Type of business.

If you have any questions regarding our request for your exemption list or the requirements in 31 CFR Part 103, please call me. My telephone number is 202-566-8022.

Sincerely,

/s/ Robert J. Stankey, Jr.

Robert J. Stankey, Jr.  
Adviser

Office of Enforcement & Operations

Mr. Hubert W. Cox  
Manager/Banking Offices  
Administration  
First National Bank of Boston  
100 Federal Street  
Boston, Massachusetts 02110



THE FIRST NATIONAL BANK OF BOSTON  
BOSTON, MASSACHUSETTS 02110

*Yanni*

#1

September 16, 1983

Mr. Robert E. Powis  
Deputy Assistant Secretary  
Department of the Treasury  
Washington, D.C. 20220

Dear Mr. Powis:

The following information concerning large withdrawals is in response to your request for additional information in your letter of August 15, 1983:

ST NATIONAL BANK OF BOSTON

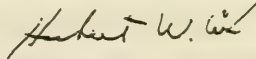
Mr. Robert E. Powis  
Deputy Assistant Secretary  
Department of the Treasury

- 2 -

September 16, 1983

These are the two accounts which we submitted to you on July 26, 1983, with a request for your approval of the exemptions. Please advise us of your determination on the exemption request.

Very truly yours



Hubert W. Cox  
Manager  
Banking Offices Administration



## DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

DEPUTY ASSISTANT SECRETARY

FEB - 9 1984

Dear Mr. Cox:

Your request of September 16, 1983, for authority to exempt certain currency transactions of the following firms from the reporting requirements in 31 CFR 103.22 has been approved:

Robert E. Powis  
Deputy Assistant Secretary  
(Enforcement)

Mr. Hubert W. Cox  
Manager/Banking Offices  
Administration  
First National Bank of Boston  
100 Federal Street  
Boston, Massachusetts 02110





## BANK OF BOSTON

February 13, 1984

Mr. Robert J. Stankey, Jr.  
Office of Enforcement and Operations  
U.S. Treasury Department, Room 1454  
Washington, D.C. 20220

Dear Mr. Stankey:

We are enclosing a revised list of customers whose currency transactions are currently being treated by The First National Bank of Boston as exempt from the reporting requirements of 31#C.F.R.#103.22. This list contains the additional information requested in your letter of August 19, 1983 for the following accounts:

As a result of our periodic review, we have removed several customers and reduced the dollar limit in some instances. We have also added three new names:

as more fully described on the list. The exemption for incorrectly listed as deposits prior to this has been changed to withdrawals.

On September 16, 1983, I wrote to Robert E. Powis, Deputy Assistant Secretary in reply to his letter of August 15, 1983, regarding , and to date I have not received a reply. Copies of the correspondence are enclosed. I would appreciate your notifying us of your determination concerning these two accounts.

If you have any questions about the updated list, please let us know.

Very truly yours,

*H. W. Cox*  
H. W. Cox  
Manager  
Metropolitan Boston

Enclosure



OFFICE OF THE SECRETARY OF THE TREASURY  
WASHINGTON, D.C. 20220

MAR 2 1984

Dear Mr. Cox:

This is in response to your letter dated February 13, 1984, which transmitted a corrected customer exempt list. Upon reconsidering the entire exempt list, however, we note one customer, the , having a high withdrawal amount partly due to the withdrawal orders apparently placed by a related credit union.

Credit unions normally are separate and distinct incorporated entities having their own taxpayer identification number (EIN), and, as such, should be listed separately on your exempt list. Please review this exemption. If an intermingling of funds is currently occurring all transactions should be reported.

Your letter also made reference to a prior request for exemptions regarding

On February 9, 1984, Mr. Powis signed an approval letter for both firms. A copy of this letter is enclosed.

If you have any further questions regarding the regulations please call me at 202-566-8022 or Theodore Cichaski at 202-566-5630.

Sincerely,

/s/ Robert J. Stankey, Jr.

Robert J. Stankey, Jr.  
Adviser

Office of Enforcement & Operations

Mr. E. W. Cox  
Manager  
First National Bank of Boston  
100 Federal Street  
Boston, Massachusetts 02110

Enclosure



BANK OF BOSTON

August 2, 1984

Mr. Robert J. Stankey, Jr.  
Office of Enforcement and Operations  
U.S. Treasury Department, Room 1454  
Washington, D.C. 20220

Dear Mr. Stankey:

We have completed our semi-annual review of customers who are currently being treated by The First National Bank of Boston as exempt from the reporting requirements of 31 # C.F.R. #103.22. The revised list, dated July 31, 1984 is enclosed. For your convenience we have marked the additions to the list with an asterisk.

Very truly yours,

H. W. Cox  
Manager  
Metropolitan Boston

Enclosure



OFFICE OF THE SECRETARY OF THE TREASURY  
WASHINGTON, D.C. 20220

AUG 10 1984

Dear Mr. Cox:

Thank you for your letter of August 2, 1984, transmitting your bank's customer exempt list of retail establishments and customers having written approval under 31 CFR 103.22(d) as of July 31, 1984. We note that

are additions to your list that require approval from this office. If you wish to request special exemptions, please provide us with the information described in the enclosed outline.

In addition, please provide us with an explanation of why would need an exemption for \$1,100,000 in withdrawals as well as the same amount for deposits. It would seem that deposits should exceed withdrawals by a large amount.

If you have any questions regarding this procedure, please contact me at 202-566-8022.

Sincerely,

/s/ Robert J. Stankey, Jr.

Robert J. Stankey, Jr.  
Adviser

Office of Enforcement & Operations

Mr. H. W. Cox  
Manager  
First National Bank of Boston  
100 Federal Street  
Boston, Massachusetts 02106

UNITED STATES DISTRICT COURT  
DISTRICT OF MASSACHUSETTS

UNITED STATES OF AMERICA

V.

CR. NO.

GENNARO J. ANGIULO,  
VITTORE NICOLO ANGIULO,  
ILARIO M.A. ZANNINO,  
DONATO F. ANGIULO,  
SAMUEL S. GRANITO,  
FRANCESCO J. ANGIULO,  
MICHELE A. ANGIULO

AFFIDAVIT OF SPECIAL AGENT EDWARD M. QUINN

I, Edward M. Quinn, being duly sworn, state as follows:

1. I am a Special Agent of the Federal Bureau of Investigation.

Since 1980, I have been one of the case agents in charge of the investigation which led to the captioned indictment. As such, I personally participated in the investigation, conferred with other investigating agents on a regular basis and reviewed their reports. I am familiar with all aspects of the investigation.

2. The investigation leading to this indictment encompassed court ordered electronic surveillance between January and May, 1981, at 98 Prince Street, Boston, Massachusetts, a non-residential apartment used by Gennaro J. Angiulo as the headquarters for his criminal organization, and at 51 North Margin Street, Boston, Massachusetts

In addition, in the course of the investigation, search warrants were executed and evidence seized as follows:



a. On April 20, 1981, twenty four search warrants were executed at the Angiulos' principal numbers betting offices, including a layoff office located at 126 Prince Street which was being operated by James Angiulo a/k/a James Jones and John Orlandella, close relatives of the Angiulos, and a layoff office at 51 Prince Street which was being operated under the supervision of James "Nini" Limone. Gambling records and apparatus seized during those raids will be introduced in evidence at trial.

b. On May 4, 1981, search warrants were executed at 98 Prince Street and 95 Prince Street. Evidence seized during those searches, which will be introduced at trial, includes over \$380,000 in cash.

c. On May 18, 1981, a search warrant was executed at 51 North Margin Street, the location of the card game which is charged as an illegal gambling business in Count Four of the indictment. The defendant Ilario M.A. Zannino was present when the warrant was executed. Evidence documenting the existence of high stakes poker games was seized and will be introduced at trial.

3. In addition to the intercepted conversations and evidence seized pursuant to search warrants, the evidence which will be introduced at trial includes: a) physical and video surveillances, including videotapes of persons entering and leaving 98 Prince Street and 51 North Margin Street during the electronic surveillance; b) the results of numerous pen register devices; and c) documentary, testimonial and real evidence developed during state homicide, gambling and loansharking investigations and during the present grand jury investigation

\*/ On April 4, 1981, Special Agent James Cullen (retired) met with Harvey Cohen and warned him of the plan to kill him. Mr. Cohen appeared before the Grand Jury pursuant to subpoena on October 7, 1982. He refused to testify asserting his Fifth Amendment privilege and was advised that he would be recalled. He was then immunized and notified to reappear through his attorney. Mr. Cohen's attorney advised a Government attorney that Mr. Cohen would go to jail for the life of the Grand Jury rather than testify. He subsequently reported that he was unable to locate Mr. Cohen. When Mr. Cohen failed to appear before the Grand Jury on August 11, 1983, a material witness warrant issued for his arrest. That warrant is still outstanding.

The attorney for another immunized Grand Jury witness, a street loanshark who works for the defendant Zannino, has represented to Government attorneys that his client who is presently incarcerated after being found in contempt will not testify because he is afraid for his life.

\*/ Joe Porter a/k/a Joseph Patrizzi was the brother of Angelo Patrizzi whose murder is charged as predicate acts a-8 and a-9 (see §5 of Count One of the Indictment). Joseph Porter was murdered in November, 1978. After Joseph Porter was murdered, Angelo Patrizzi threatened to revenge his brother's death.

-11-

\* NO IN  
BY [unclear]  
[unclear]

19. a. On February 3, 1981 and March 9, 1981, respectively, Grand Jury subpoenas were served on Louis Venios and his son-in-law Walter LaFreniere.

b. On March 12, 1981, Walter LaFreniere appeared before the Grand Jury without counsel.

e. On March 19, 1981, Walter LaFreniere was advised by Strike Force attorneys that he had been immunized and was scheduled to appear

before the Grand Jury within the week.

- i. On March 23, 1981, Jason Angiulo was subpoenaed to the Grand Jury.



{ On the same date, Mr. Cintolo filed a motion for discovery of all previous statements and previous Grand Jury testimony of Walter LaFreniere. As the basis of this motion, Cintolo claimed that he needed the prior statements in order to advise his client.

} This motion was denied by the Honorable A. David Mazzone on April 2, 1981. Mr. Cintolo also represented to Judge Mazzone that he had been unable to contact Walter LaFreniere.

m. On the same date, Judge Mazzone disqualified William Cintolo from representing Jason Angiulo before the Grand Jury because Cintolo already purported to represent Walter LaFreniere. Judge Mazzone found that there was an impermissible conflict of interest in representing both parties

n. On April 23, 1981, Walter LaFreniere appeared before the Grand Jury pursuant to a grant of immunity. He was represented by William Cintolo.

o. On June 2, 1981, after a hearing at which he was represented by William Cintolo, Walter LaFreniere was held in contempt for refusing to testify before the Grand Jury. He was incarcerated for eighteen months and was released on December 5, 1982.

20. In December, 1982, William J. Cintolo attempted to represent two witnesses - Harold Daw and Stella Orlandella - before the Grand Jury which was considering the evidence obtained from the electronic surveillance. Although Justice Department Attorneys pointed out to Cintolo the obvious conflict of interest in his representing witnesses before a Grand Jury which was considering evidence against him, Cintolo refused to withdraw. The Honorable Andrew A. Caffrey entered an order on January 19, 1983 disqualifying Cintolo from representing Daw, Orlandella, or any other witnesses summoned in connection with the investigation. Daw and Orlandella were rescheduled to appear before the Grand Jury on Thursday, February 3, 1983. On Wednesday evening, February 2, 1983, Special Agents of the Federal Bureau of Investigation observed Attorney William Marino dining with Gennaro J. Angiulo at

Francesco's Restaurant on Washington Street in Boston. On February 3, 1983, Orlandella and Daw did not appear as scheduled. Instead, Attorney William Marino, claiming to represent Orlandella and Daw, filed motions to quash their grand jury subpoenas. These motions were immediately denied. Attorney William Marino then represented Ms. Orlandella and Daw before the Grand Jury.

21. Count 5 of the indictment alleges that Gennaro J. Angiulo, Francesco J. Angiulo and Ilario M.A. Zannino owned and operated an illegal gambling business, that is, a barbooth (dice) game, in Lowell, Massachusetts. In connection with the Grand Jury investigation, thirteen people who were arrested when the Massachusetts State Police raided that game on November 10, 1981, were subpoenaed before the Grand Jury in January and February of 1983. Attorney Paul Caradonna represented eleven of the thirteen witnesses subpoenaed to the Grand Jury. Mr. Caradonna's law offices were then located in Everett, while ten of the eleven subpoenaed witnesses whom he represented lived in the Lowell area.

22. On or about March 24, 1983, the defendant Gennaro J. Angiulo and William J. Cintolo, Esq., filed a Petition to Terminate the Grand Jury Proceedings based on alleged prosecutorial misconduct. Affidavits of Grand Jury witnesses were submitted in support of the Petition. Three of the affidavits were signed by witnesses from the Lowell game and a fourth by Mr. Petros. A full hearing on the Petition was held by Judge Walter Jay Skinner on April 22, 1983. After examining the grand jury transcripts and the reporters who recorded the testimony before the Grand Jury, Judge Skinner denied the Petition ruling "that the affidavits in support of the petition are not true." One of the false affidavits was submitted by Harold Daw. As stated above, after William Cintolo was disqualified from representing him, Mr. Daw was represented by Mr. William Marino whom federal agents observed conferring with Gennaro J. Angiulo the night before Daw's scheduled Grand Jury appearance .

#### 1972 JURY TAMPERING

23. On July 4, 1972, Gennaro J. Angiulo was arrested in the District of Massachusetts for assaulting a federal officer (a Coastguardsman). He was subsequently indicted. On the night of the

first day of Angiulo's trial, Salvatore I. Limone approached a petit juror sitting on the case and corruptly endeavored to influence that juror to hold out for a not guilty verdict at trial telling the juror that Gennaro J. Angiulo was a close friend of his. Salvatore I. Limone was then indicted for violation of 18 U.S.C. §1503, pleaded guilty, and was sentenced to a one year term of imprisonment by Judge Joseph L. Tauro on October 19, 1983.

Salvatore I. Limone is the brother of Peter Limone and James "Nini" Limone, both of whom continue to be close associates of Gennaro J. Angiulo.

26. I have reviewed summaries prepared by a Special Agent of the Internal Revenue Service from subpoenaed records of various bank accounts at the Bank of Boston and the Provident Institution for Savings (the "Provident") in the names of the defendant Angiulos, Jason Angiulo the Huntington Realty Co., and James Angiulo a/k/a James Jones who I



know is used as a straw for the defendant Angiulos. I have also reviewed summaries prepared by the same agent from records relating to the purchase of cashier's checks by the same individuals and entity at these two banks. These summaries present only a partial picture of the Angiulos' financial resources in that records received to date encompass only twenty four of thirty seven accounts at the Provident. Further, no records have been received as yet from New World Bank (the Charlestown Savings Bank) and the Cambridge Savings Bank where the Angiulos are known to have accounts. These partial records reflect that:

a. During the calendar year 1982 alone, the Angiulos purchased over \$1,765,000 in cashier's checks from the Bank of Boston. Of that amount, over \$250,000 in cashiers checks was purchased with "new cash," i.e., cash that was not withdrawn from any existing account. The cashier's checks were used for various purposes, including investments, with over \$270,000 going to Cowen & Co., an investment company.

b. The accounts at the Provident show a current total balance of approximately \$340,000. In addition, during the past six months, approximately \$279,000 was withdrawn from these accounts.

c. Between September 29, 1981 and July 1, 1983, the Angiulos purchased over \$250,000 in cashier's checks from the Provident which were then made payable to Cowen & Co. [No part of the \$279,000 withdrawn from the accounts at the Provident during the past six months was used to purchase these cashier's checks.]

27. On May 4, 1981, agents of the Federal Bureau of Investigation conducted court authorized searches at both 98 and 95 Prince Street, Boston, Massachusetts. During the course of these searches, approximately three hundred eighty-three thousand (\$383,000) in United States Currency and coin was seized. Of this amount, over \$7,000 was seized from the person of Francesco J. Angiulo and over \$40,000 from a dresser drawer in his apartment at 95 Prince Street. Additionally, three hundred thousand dollars (\$300,000) in notes drawn on the Chrysler Financial Corporation was also taken from a safe located in the second floor apartment of 98 Prince Street.

28. The Angiulos also own a substantial amount of real estate, including the property described in ¶8 of Count One of the Indictment.

29. The investigation has further established that a sixty-eight foot, six inch (68' 6") cruising yacht, St. Gennaro, formerly known as the Georgetta, was purchased from the College Council of Resources in Palm Beach Florida on February 10, 1980. The purchase price for the yacht was \$300,000. The vessel was purchased with consecutively numbered cashier's checks drawn on the First National Bank of Boston.

of July of this year, title to the yacht was in his name

32. In the course of this investigation, federal agents have reviewed certain real estate property records at the Suffolk County Registry of Deeds. These documents establish that in the year 1981, during the period of the court authorized electronic surveillance, Donato F. Angiulo was the registered owner of both 98-98A and 93½ -95 Prince Street, Boston, Massachusetts. During the same period, Francesco Angiulo was the registered owner of a parcel of property known as 280 Hanover Street. Inventory notice, pursuant to 18 United States Code §2518(8) (d) was served upon the defendants in August of 1981. Further review of records at the registry of deeds reveals that the Prince Street and Hanover Street properties were conveyed to Federal

Investments Inc., on January 4, 1982. All three deeds were subsequently recorded on November 9, 1982.

Federal agents have also reviewed records on file with the office of the Secretary of State for the Commonwealth of Massachusetts. The Certificate of Annual Report for Federal Investment Inc., for fiscal year ending December 31, 1982, indicates that its officers are James Angiulo, Nicolo Angiulo and Frank Angiulo. The directors of this corporation were listed as James Angiulo, Nicolo Angiulo, Frank Angiulo and Jerry Angiulo. The latter three listed their address as 95 Prince Street, Boston, Massachusetts. The identity of the stockholders of Federal Investment, Inc. is unknown.

b. The defendant Zarrino leads an active life. Neither his diet nor his consumption of alcoholic beverages is restricted. When under physical surveillance, the defendant Zarrino frequently visited Francesco's Restaurant and remained there until midnight. On such occasions, he was observed engaging in a full meal (3 course) and consuming wine and other alcoholic beverages.

Mr. Zannino was at the game at 51 North Margin Street on May 4, 1981, at approximately 9:00 p.m. when federal agents executed a search warrant. At that time he appeared to be in good health and stated to one of the executing officers: "I'll outlive you all."

Conclusion

34. On the basis of the foregoing facts, and my knowledge of this investigation, I believe that if released on bond, the defendant Gennaro J. Angiulo will continue his efforts to obstruct justice by intimidating witnesses and forcing them to commit contempt, among other things, and further that he will transfer property and flee the jurisdiction rather than submit to trial and imprisonment for his crimes and forfeiture of his assets. I believe that the defendant Ilario M.A. Zannino will



falsely claim that he is physically unable to stand trial and will flee the jurisdiction should that claim fail. I further believe that he will intimidate witnesses and otherwise interfere unlawfully with the judicial process. With respect to the remaining defendants, I believe that high bail and very strict conditions of release are necessary to ensure their appearance at trial and to prevent them from endeavoring to obstruct justice.

Signed under the pains and penalties of perjury:

*Edward M. Quinn*  
 EDWARD M. QUINN  
 Special Agent  
 Federal Bureau of Investigation

Sworn and subscribed to before me this 20<sup>th</sup> day of September, 1983.

*Edward M. Quinn*  
 NOTARY PUBLIC

- My Commission Expires:

2-12-87



DEPUTY ASSISTANT SECRETARY

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220EXHIBIT 34

OCT 23 1984

MEMORANDUM FOR: John F. Downey  
Chief National Bank Examiner  
Comptroller of the Currency

FROM: Larry B. Sheafe <sup>(Initialed)</sup>  
Acting Deputy Assistant Secretary  
(Enforcement)

SUBJECT: Request for National Bank Examiner

On April 27, 1983, we authorized the IRS to undertake an investigation of possible criminal violations of 31 CFR Part 103 at the First National Bank of Boston, Boston, Massachusetts, in cooperation with the U.S. Attorney for the State of Massachusetts.

We recently received an urgent request for a bank examiner to assist in that investigation on a full time basis. The examiner would function as an agent of the grand jury.

Your cooperation in making an examiner available for this purpose would be greatly appreciated. The Chief, Criminal Investigation Division, can provide additional details concerning the assignment.



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

EXHIBIT 35

File 3

DEPUTY ASSISTANT SECRETARY

NOV - 6 1984

MEMORANDUM FOR: John P. Downey  
Chief National Bank Examiner  
Comptroller of the Currency

FROM: Larry B. Sheafe *LS*  
Acting Deputy Assistant Secretary  
(Enforcement)

SUBJECT: Compliance of Banks in Massachusetts

On September 21, 1982, we sent the attached memorandum to your office. After reviewing our files, we have been unable to locate a record of receiving a response.

If there was a written response, we would appreciate receiving a copy of it. We are especially interested in the First National Bank of Boston, which is currently the subject of a criminal investigation.

In addition, we would also appreciate it if you would provide us with copies of all of the compliance reports for the First National Bank of Boston covering the period January, 1980 through April, 1983, when we notified your office concerning the criminal investigation.

If you have any questions regarding this request, please have a member of your staff contact Robert Stankey of this office.

Attachment

cc: James Tracy

Comptroller of the Currency  
Administrator of National Banks

Washington, D.C. 20219

November 13, 1984

Larry B. Sheafe  
Acting Deputy Assistant  
Secretary (Enforcement)  
Department of Treasury  
Washington, D.C. 20220

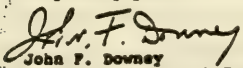
Dear Mr. Sheafe:

This is in response to your memorandum of November 6, 1984 regarding Compliance of Banks in Massachusetts (31 CFR 103).

In accordance with your request, attached is a copy of our response to former Deputy Assistant Secretary Powis's September 21, 1982 memorandum, which was previously submitted to your office.

Secondly, you requested all compliance reports for The First National Bank of Boston, Boston, Massachusetts from January 1980 through April 1983. We have reviewed the examination reports for this period and note that no violations of 31 CFR 103 were recorded. Accordingly, there is no additional information available.

Very truly yours,



John F. Downey  
Chief National Bank Examiner

Attachment

# MEMORANDUM EXHIBIT 37

Comptroller of the Currency  
Administrator of National Banks

First National Bank Region  
Harbor Plaza — Eighth Floor  
470 Atlantic Avenue  
Boston Massachusetts 02110

Edward Goldberg, National Bank Examiner

Thomas E. Rollo, Associate National Bank Examiner

December 3, 1984

31 CFR 103, Financial Recordkeeping Task Force



Today, David Austin, National Bank Examiner, and myself met with P. Michael Swartz, U.S. Customs, to discuss an ongoing investigation by the U.S. Customs/Dept. of Treasury, into the practice of non-filing of currency transaction reports by the First National Bank of Boston.

Discussion centered upon transactions involving physical shipments of currency by foreign banks to or from their respective accounts with the First National Bank of Boston. In response to various questions from Mr. Swartz, information was offered by Mr. Austin and myself in an attempt to deliver a basic understanding of the concepts of International Banking and the use of correspondent bank accounts. At the conclusion of this meeting, Mr. Swartz decided to conduct a random sample of foreign bank transactions in an attempt to ascertain the nature of these relationships. Also, he asked if Mr. Austin and myself would render further assistance if the need arose, an affirmative response was given. To date, nothing in writing has been required by the Task Force from this Office



U.S. Department of Justice EXHIBIT 38

mfw

Criminal Division

*Organized Crime and Racketeering Section  
Boston Strike Force*

Post Office Box 1433  
John W. McCormack  
Post Office and Courthouse  
Boston, Massachusetts 02109

617/223-3390

February 7, 1985

NEWS RELEASE

The U. S. Justice Department today filed criminal felony charges against the First National Bank of Boston, the largest bank in New England, alleging that the Bank knowingly and willfully failed to report to the federal government the movement of over one billion dollars in cash between the Bank's home office in Boston and various Swiss banks.

United States Attorney William F. Weld of the District of Massachusetts, and New England Organized Crime Strike Force Chief Attorney Jeremiah T. O'Sullivan, said that the Bank waived indictment and pleaded guilty to the felony charge before U. S. District Judge A. David Mazzone.

Judge Mazzone imposed on the Bank a fine of one-half million dollars, which was the maximum statutory fine for the single felony count. The fine had been agreed upon by both the United States and the Bank. Weld and O'Sullivan said that the fine is the largest ever imposed and paid by a financial institution for violation of the federal currency reporting law.

The felony Information filed by the government charged that the First National Bank of Boston had violated Title 31 of the United States Code by conducting large currency transactions with foreign banks and failing to file Currency Transaction Reports for those transactions, as required by federal law.

Weld said that Currency Transaction Reports (IRS Forms 4789) must be filed with the I.R.S. for all transactions of United States currency in excess of \$10,000, to help the I.R.S. gather information for use in criminal, tax and regulatory proceedings.

The 1,163 transactions charged by the government totalled \$1,218,682,281. According to O'Sullivan, the government's charges were based on 993 deposits of cash involving \$528,539,281, and 170 withdrawals of cash totalling \$690,143,000.

The breakdown by year charged was as follows:

1980 -	\$194,410,422
1981 -	\$544,721,484
1982 -	\$269,307,393
1983 -	\$161,378,672
1984 -	\$48,864,310
<u>Total</u>	<u>\$1,218,682,281</u>

The Information and an attached Appendix detail transactions with nine banks. The largest amounts (\$1.16 billion) were transacted with three Swiss banks -CreditSuisse of Zurich, Swiss Bank Corp. of Basel and Union Bank of Switzerland, Zurich.

O'Sullivan said that the First National Bank of Boston, the twentieth largest financial institution in the United States, maintains the fourth largest international division of any United States bank. He noted that the transfers in currency involved the physical shipment of United States currency from foreign banks in Switzerland and other countries to Boston, for deposit to those banks' accounts at the First National Bank of Boston; and also involved the physical shipment of United States currency from Boston to Europe, when the foreign banks made withdrawals from their accounts in Boston.

The felony charge to which the First National Bank of Boston pleaded guilty today is the fourth case brought by the Financial Investigative Task Force in Boston, composed of agents from the Criminal Investigation Division of the I.R.S. and from the United States Customs Service, and directed by attorneys from the New England Organized Crime Strike Force and the United States Attorney's

office for the District of Massachusetts.

The Financial Investigative Task Force is investigating the failure of domestic financial institutions to report the transfer of large amounts of United States currency through the institutions, and their failure to report the transportation of large sums of United States currency into, and out of, the United States by individuals and couriers.

Currently the law requires financial institutions to report to the I.R.S. any currency transactions over \$10,000, and requires individuals and couriers to report to the United States Customs Service over \$10,000 in currency transported across United States borders.

The case is being handled for the government by Special Attorney Patrick M. Walsh of the Boston Strike Force.

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UNITED STATES DISTRICT COURT  
DISTRICT OF MASSACHUSETTS

UNITED STATES OF AMERICA	)	
	)	
V.	)	Criminal No.
	)	
THE FIRST NATIONAL BANK	)	
OF BOSTON	)	

PLEA AGREEMENT

Attorneys for the United States of America and for the defendant, The First National Bank of Boston (the "Bank") have engaged in extensive plea negotiations with respect to this case. As a result of these negotiations, the United States and the Bank enter into the following Plea Agreement, pursuant to the provisions of Rule 11(e)(1)(C) of the Federal Rules of Criminal Procedure:

1. The Bank will plead guilty to the one-count felony Information, a copy of which is attached hereto, charging a violation of Title 31, United States Code, Sections 1081 and 1059 (superceded by Sections 5313 and 5322(b), respectively). Furthermore, the Bank waives its right to Indictment with respect to the matters set forth in the Information.

2. The United States and the Bank agree that a fine of five hundred thousand dollars (\$500,000) is the appropriate disposition of the case.

3. The United States reserves the right to inform the Court of the results of its investigation concerning the violation charged in the Information and the factual basis for the guilty plea with respect thereto. The Bank reserves the right to inform the Court of the factual basis for its guilty plea. The United States will not present evidence for, nor make any arguments advocating, any disposition other than as set forth in Paragraph 2. The Bank will not present evidence for, nor make any arguments advocating, any disposition other than as set forth in Paragraph 2.

4. The United States agrees that this guilty plea exempts from further criminal liability and from any civil or administrative liability, and that the United States will neither initiate nor pursue any further criminal, civil, or administrative action against, the Bank, its parent, subsidiaries, affiliates, successors or assigns, or the past or present officers, directors, trustees, employees, agents or attorneys of any of them, based upon this guilty plea or for any violation of law under Title 31, United States Code, Title 18, United States Code or any other applicable provision of federal law, or any rules or regulations, to the extent that any such violation of law arose out of, in the course of, or in connection with (i) the failure of the Bank or any officer or employee thereof to file any Currency Reports, as required by Title 31 or to have in place procedures to ensure compliance with Title 31, (ii) the investigation by the United States of such failure of the Bank or of any officer or employee thereof to file currency



reports or to have in place procedures to ensure compliance with said Title 31, (iii) any currency transactions or events that were the subject of such investigation; or (iv) any proceedings relating to such currency investigation, all for the period from January 1, 1970 to the date of entry of this plea; except only that the United States reserves the right to commence criminal, civil or administrative action against any individual employee or officer of the Bank should it find that such individual knowingly failed to file or knowingly caused the failure to file, any currency report at the request or direction of any person or entity not released by this Agreement; or should the Government find that such individual knowingly failed to file, or knowingly caused the failure to file, any currency report with the knowledge, intent or belief that such failure would assist, or attempt to assist, in the commission of any crime by any person or entity not released by this Agreement; and, except further, that the United States reserves the right to commence criminal, civil or administrative action against the Bank, should it find that any individual employee or officer of the Bank or the Bank knowingly failed to file, or knowingly caused the failure to file, any currency report at the request or direction of any person or entity not released by this Agreement; or should the Government find that such individual employee or officer of the Bank, or the Bank, knowingly failed to file, or knowingly caused the failure to file, any currency report with the knowledge or

intent that such failure would assist, or attempt to assist, in the commission of any crime by any person or entity not released by this Agreement.

5. In the event that the Court does not accept this Plea Agreement, then either the Bank or the Government may terminate this Agreement and it shall be of no further force or effect.

6. This Agreement constitutes the entire agreement between the parties.

Respectfully submitted,

WILLIAM F. WELD  
United States Attorney

JEREMIAH T. O'SULLIVAN  
Special Attorney

By:

DATE: Feb. 7, 1985

Patrick M. Walsh  
PATRICK M. WALSH  
Special Attorney  
U.S. Department of Justice  
Paul B. Salvani

DATE: Feb 7, 1985

Cheryl A. Lafleur  
PAUL B. SALVANI  
CHERYL A. LAFLEUR  
Ropes & Gray  
225 Franklin Street  
Boston, MA 02110

Attorneys for the Defendant  
The First National Bank  
of Boston

FIRST NATIONAL BANK OF BOSTON

DATE: \_\_\_\_\_

By: \_\_\_\_\_

ITS Senior Vice President / State of \_\_\_\_\_  
Thereunto Duly Authorized

UNITED STATES DISTRICT COURT  
DISTRICT OF MASSACHUSETTS

UNITED STATES OF AMERICA	)	
	)	
V.	)	Criminal No.
	)	Violations:
THE FIRST NATIONAL BANK	)	
OF BOSTON	)	

I N F O R M A T I O N

COUNT I: (Currency Violations -- 31 U.S.C. §§1081 and 1059, superceded by 31 U.S.C. §§5313 and 5322(b)).

The United States of America, by William F. Weld, United States Attorney and Jeremiah T. O'Sullivan, Chief Attorney, New England Organized Crime Strike Force, its attorneys, charges:

1) At all times material herein, The First National Bank of Boston, (hereinafter "Bank of Boston") defendant herein, was a financial institution organized under the laws of the United States of America, with its principal office located in Boston, Massachusetts. Bank of Boston was at all times a National Banking Association, and was a "financial institution" as defined in Title 31 U.S.C. Section 5312 (formerly section 1052).

2) At all times material herein, Bank of Boston was required to file with the Internal Revenue Service (hereinafter "IRS"), Currency Transaction Reports (IRS Forms 4789) for transactions of United States currency in excess

of \$10,000, in order that the IRS may gather information concerning large cash transactions, for use in criminal, tax and regulatory proceedings.

3) From on or about July 1, 1980 and continuing through on or about September 30, 1984, in the District of Massachusetts, the defendant, Bank of Boston, a banking institution engaged in the business of dealing in currency, knowingly and willfully failed to file, and caused the failure to file, Currency Transaction Reports (IRS Forms 4789) with the Commissioner of the Internal Revenue Service, for currency transactions it engaged in, as required by law, as summarized in Appendix A, attached hereto and incorporated herein.

4) That the defendant Bank of Boston was required to file a Currency Transaction Report for each of the currency transactions set forth in Appendix A below; and wilfully failed to file said Reports, in violation of Title 31, U.S.C., Section 1081 on transactions occurring before September 14, 1982, and in violation of Title 31, U.S.C., Section 5313 for transactions on or after September 14, 1982, and in violation of 31 Code of Federal Regulations, Sections 103.22(a) (1980) and 103.25( 1980), which offenses were committed as a part of a pattern of activity involving currency transactions exceeding \$100,000.00 within a twelve-month period, to wit:

1980 - \$194,410,422.00  
1981 - \$544,721,484.00  
1982 - \$269,307,393.00 -  
1983 - \$161,378,672.00  
1984 - \$48,864,310.00

TOTAL \$1,218,682,281.00

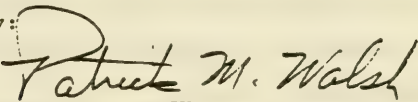
All in violation of Title 31, U.S.C. Sections 1081 and  
1059, and Title 31 U.S.C. Sections 5313 and 5322(b).

Respectfully submitted,

WILLIAM F. WELD  
United States Attorney

JEREMIAH T. O'SULLIVAN  
Special Attorney

By:

  
PATRICK M. WALSH  
Special Attorney

DATE: February 7, 1985



NAME OF BANK	1981		1982		1983		1984		TOTAL WITHDRAWALS		TOTAL DEPOSITS	
	NUMBER	AMOUNT	NUMBER	AMOUNT	NUMBER	AMOUNT	NUMBER	AMOUNT	NUMBER	AMOUNT	NUMBER	AMOUNT
<b>Credit Suisse Bank, Zurich, Switzerland</b>												
Deposits	(1)	10,900,000	(24)	55,870,000	(31)	5,900,000	-	-	(54)	270,170,000	(53)	103,409,000
Withdrawals	(11)	91,500,000	(19)	31,410,000	-	-	-	-	-	-	-	-
TOTAL	(10)	576,100,000	(43)	5146,680,000	(31)	55,900,000	-	-	(54)	270,170,000	(53)	103,409,000
<b>Swiss Bank Corp., Basel, Switzerland</b>												
Deposits	(22)	10,595,600	(68)	44,102,697	(118)	74,861,702	(92)	29,203,700	(33)	89,150,000	(309)	210,070,349
Withdrawals	(16)	21,000,000	(12)	5,000,000	(14)	10,150,000	-	-	(33)	89,150,000	-	-
TOTAL	(28)	511,595,600	(10)	504,102,697	(122)	845,011,702	(92)	29,203,700	(66)	178,300,000	(309)	210,070,349
<b>Union Bank of Switzerland, Zurich, Switzerland</b>												
Deposits	(25)	7,954,800	(16)	51,139,161	(69)	56,656,562	(11)	51,612,720	(65)	329,059,000	(204)	165,145,861
Withdrawals	(15)	10,050,000	(11)	31,100,000	(11)	6,000,000	-	-	(65)	329,059,000	-	-
TOTAL	(40)	546,000,000	(103)	564,839,161	(101)	562,656,562	(11)	51,612,720	(120)	350,119,000	(204)	165,145,861
<b>Berclyne Bank International, New York, New York</b>												
Deposits	(41)	4,405,022	(51)	8,147,116	(50)	4,482,720	(69)	5,529,712	(11)	705,000	(209)	36,816,860
Withdrawals	(14)	292,000	(11)	30,000	-	-	-	-	(11)	705,000	-	-
TOTAL	(45)	54,710,022	(58)	58,387,116	(50)	54,482,720	(69)	5,529,712	(122)	140,705,000	(209)	36,816,860
<b>Bank of Boston S.A., Luxembourg</b>												
Deposits	(12)	303,216	(15)	478,399	(9)	239,688	(15)	340,800	(3)	140,000	(91)	1,470,101
Withdrawals	(12)	5103,216	(15)	5470,399	(10)	5427,688	(17)	5408,800	(3)	140,000	-	-
TOTAL	(24)	5403,432	(30)	5948,797	(19)	5667,376	(32)	5748,888	(6)	280,000	(102)	1,610,201
<b>Bank Ltd., Zurich, Switzerland</b>												
Deposits	(12)	10,919,911	(12)	10,919,911	(12)	10,919,911	(12)	10,919,911	(12)	10,919,911	(12)	10,919,911
Withdrawals	(12)	10,919,911	(12)	10,919,911	(12)	10,919,911	(12)	10,919,911	(12)	10,919,911	(12)	10,919,911
TOTAL	(24)	21,839,822	(24)	21,839,822	(24)	21,839,822	(24)	21,839,822	(24)	21,839,822	(24)	21,839,822
<b>Die Erste Oesterreichische Bank, Vienna, Austria</b>												
Deposits	(12)	10,919,911	(12)	10,919,911	(12)	10,919,911	(12)	10,919,911	(12)	10,919,911	(12)	10,919,911
Withdrawals	(12)	10,919,911	(12)	10,919,911	(12)	10,919,911	(12)	10,919,911	(12)	10,919,911	(12)	10,919,911
TOTAL	(24)	21,839,822	(24)	21,839,822	(24)	21,839,822	(24)	21,839,822	(24)	21,839,822	(24)	21,839,822
<b>Grosvenor Imperial Bank of Commerce, Vienna, Austria</b>												
Deposits	(12)	10,919,911	(12)	10,919,911	(12)	10,919,911	(12)	10,919,911	(12)	10,919,911	(12)	10,919,911
Withdrawals	(12)	10,919,911	(12)	10,919,911	(12)	10,919,911	(12)	10,919,911	(12)	10,919,911	(12)	10,919,911
TOTAL	(24)	21,839,822	(24)	21,839,822	(24)	21,839,822	(24)	21,839,822	(24)	21,839,822	(24)	21,839,822
<b>Standard Chartered Bank Limited, New York, New York</b>												
Deposits	(12)	10,919,911	(12)	10,919,911	(12)	10,919,911	(12)	10,919,911	(12)	10,919,911	(12)	10,919,911
Withdrawals	(12)	10,919,911	(12)	10,919,911	(12)	10,919,911	(12)	10,919,911	(12)	10,919,911	(12)	10,919,911
TOTAL	(24)	21,839,822	(24)	21,839,822	(24)	21,839,822	(24)	21,839,822	(24)	21,839,822	(24)	21,839,822

## AGRICULTURE TOTALS FOR ALL BANKS

NAME OF BANK	1980		1981		1982		1983		1984		TOTAL WITHDRAWALS		TOTAL DEPOSITS	
	NUMBER	AMOUNT	NUMBER	AMOUNT	NUMBER	AMOUNT	NUMBER	AMOUNT	NUMBER	AMOUNT	NUMBER	AMOUNT	NUMBER	AMOUNT
TOTAL DEPOSITS	(95)	\$1,915,422	(229)	\$19,511,484	(240)	\$162,003,393	(253)	\$185,140,612	(177)	\$17,884,310				
approx. \$ in														
bill less														
than \$100		85%		68%		66%		67%		73%				
TOTAL DEPOSITS														
approx. \$ in														
bill less		15%		12%		14%		18%		27%				
than \$100														
or greater														
TOTAL WITHDRAWALS	(16)	\$160,495,000	(91)	\$405,210,000	(25)	\$107,220,000	(6)	\$16,238,000	(5)	\$800,000				
approx. \$ in														
bill less		15%		20%		10%		61%		4%				
than \$100														
TOTAL WITHDRAWALS														
approx. \$ in														
bill less		85%		80%		70%		37%		96%				
than \$100														
or greater														
YEARLY TOTALS	(131)	\$194,410,422	(326)	\$544,721,484	(265)	\$269,307,393	(259)	\$161,378,612	(102)	\$48,884,310	(170)	\$690,143,000	(993)	\$528,519,281
GRAND TOTAL													(1,163)	\$1,218,482,281

OPENING REMARKS BY  
WILLIAM L. BROWN  
CHAIRMAN  
BANK OF BOSTON  
FEBRUARY 11, 1985

On Thursday last week the Bank pleaded guilty to a charge filed by the U.S. Attorney's office in Boston that we had failed to file reports with the Internal Revenue Service concerning currency transactions between us and foreign banks. Under the Currency and Foreign Transactions Reporting Act (Title 31 of the U.S. Code), banks are required to report to the IRS cash transactions with foreign banks of amounts in excess of \$10,000.

As charged by the government, we did not file the required currency transaction reports during the period from July 1980 to September 1984. This statement is intended to clarify the background surrounding our guilty plea and to address several questions raised over the last several days.

There are two fundamental issues here. One is the violation of Title 31, which we admit: There was a failure in our reporting system. Second, is the suggestion that there is somehow a link between this "systems failure" and organized crime, which is being investigated by the Justice Department. To the best of our knowledge, this is absolutely untrue.

It has been suggested that large movements of currency in small denominations in and out of this country involves illegal activity. There is no evidence whatsoever in this case to support that suggestion.

There are, however, several points which have been reported in the media which need to be clarified or corrected. First, the shipments of currency whether from Bank of Boston to foreign banks or vice versa are strictly at the initiation of foreign banks and are either for deposit or withdrawal at each foreign bank's own account at Bank of Boston. Second, only banks are involved in any way with these transactions on either the shipping or receiving end; no individual or other non-bank customer is involved. Third, the large shipments of cash in small denominations have been from foreign banks to Boston, and not the reverse. Fourth, Bank of Boston has nothing to do with the decision of how much or in what form those shipments are made. In 99% of our shipments overseas, we are requested to and do ship in the form of "bricks" or bundles of new, sequentially numbered and recorded bills.

There is a related issue here. Somehow the impression has been left that a bank sending or receiving currency to or from another bank -- in this instance a foreign bank -- is somehow illegal or unsavory at the very least. Nothing could be further from the truth. We have been in this business for many, many years. Shipping currency is a business that is basic to banking and is highly competitive. There is nothing illegal or unsavory about this business whatsoever. We are continuing in this business. If any government official, any member of the media, or any member of the public knows any reason why this business or any aspect of it is illegal or unethical, we trust and hope any such person will bring it to our attention.

There also has been the suggestion that individuals carrying "bags" or "satchels" brimming with cash have managed to use this bank-to-bank cash transfer business for allegedly illegal ends. First, it is impossible for any individual to transfer cash overseas by utilizing this correspondent bank service; this service is strictly between banks. Second, I repeat that all of these transactions have been initiated by the foreign banks for their own accounts.

It has been reported in The New York Times in a statement attributed to Mr. John Walker of the Treasury Department that there is a large and growing market for American currency overseas, partly spurred by the rising strength of the dollar. He is reported to have said, however, that this is generally a legal market, where the banks involved in transferring the cash complied with the government's reporting requirement. He also is reported to have said that the \$1.22 billion the bank transferred "is a much higher figure than is normal for one bank." Some might infer from these remarks that our transactions could be interpreted as illegal. Bank of Boston's international currency business is perfectly legal. The only legal issue was our failure to file the required reports with the Internal Revenue Service. While \$1.22 billion over more than four years sounds like a lot of money, and it is, that number is relatively small when compared with our current monthly volume to our domestic correspondent banks of about \$1.4 billion. While Bank of Boston is one of the largest participants in this business, we believe there are U.S. banks whose volume is comparable to or even greater than our own.

Much has also been made of our pleading guilty to "knowingly and willfully" violating Title 31. The U.S. Attorney is reported in the press as suggesting that our guilty plea was an admission that at all points in time we knew we should have filed these reports and that we simply failed to do so. In fact, as soon as we had determined that these reports were required to be filed, we did so for the entire period in question and are continuing to do so. Notwithstanding our action, the fact that one should have known and did not comply with a regulation is tantamount under the law to "knowingly and willfully" being in noncompliance. That is why we pleaded guilty - that we should have known and did not. We did not intentionally avoid complying with Title 31. The plea resulted from extended negotiations with the government to resolve the matter in a fashion that was acceptable both to the government and to the bank.

Finally, a personal note. I have been associated with this institution for 38 years and I have always been proud to say I work for Bank of Boston. I am as proud today as I was the first day I started. Bank of Boston's record of accomplishments, strengths and most of all integrity is a record that thousands of employees around the world have been proud to stand behind for 200 years.

I have asked Gene Tangney, Executive Vice President in charge of bank operations and corporate services, to explain the business side of these currency transactions, and Dick Wiley, Executive Vice President in charge of staff services, to comment on matters relating to the investigation. I will welcome questions at the conclusion of these remarks.



The Business of Currency Shipments

Remarks by Eugene M. Tangney  
Executive Vice President

February 11, 1985

Bank of Boston has been engaged in international banking for many years. International banking has always involved the transfer of cash between banks in different countries, and Bank of Boston has historically participated in that business. Part of international banking is the business of providing to foreign correspondent banks United States currency when those banks request such shipments, and the receipt of United States currency from those foreign correspondent banks when they ship it into this country.

Western European banks are our primary customers for this service. These banks in turn maintain their own correspondent banking networks in their local markets and serve as clearing houses for their correspondents in satisfying other banks' requirements for U.S. currency. I will describe the actual steps taken in handling these shipments and receipts as set forth in the exhibits attached. You will note that all shipments were reported on U.S. Export Declaration forms, even though the IRS forms were overlooked.

The transfer of money throughout the world banking system is conducted basically in three ways: 1.) through checks; 2.) through electronic wire transfers; and 3.) through the sale and physical transfer of cash between banks. Currency is by far the smallest medium of the three.

Bank of Boston is one among several, mainly large money center banks, involved in the business of supplying U.S. currency to their correspondents, both international and domestic, and this is a business that we will continue to develop. As New England's largest correspondent bank, we are also the region's largest supplier of coin and currency to regional correspondents in the northeastern United States. Current volumes of currency shipments with our domestic correspondent banks average approximately \$1.4 billion monthly. Total transactions for domestic shipments for the same period in question, July 1980 through 1984, were approximately 300,000 shipments for \$40 billion, while total international currency shipments for that period were approximately 1200 shipments for \$1.2 billion.

Currency Reporting Investigation  
 Remarks by Richard A. Wiley  
 Executive Vice President  
 February 11, 1985

We understand that during the late 1970s and early '80s the Federal government began investigations into compliance by banks with currency reporting requirements. During 1983, the government commenced an inquiry concerning currency transactions at Bank of Boston. However, it was not until the summer of 1984 that it became apparent to the Bank that the inquiry would concern international transactions. At that time, in preparation for an examination of our international area, the Bank began its own review of currency transactions with its foreign correspondent banks. It was discovered that, through error, no one at the Bank had implemented the regulations which had been amended in 1980 to require the reporting of cash transactions with foreign correspondent banks.

In conducting its review of the international reporting issue, the bank retained David McDonald, a Washington attorney, to inquire of the officials of the U.S. Treasury Department responsible for enforcing the law whether such international transactions needed to be reported. He was advised that they did, and as a result the Bank immediately began to file the delinquent reports. No effort was made by Mr. McDonald to terminate the Justice Department's investigation. Mr. Walker, chief enforcement officer at Treasury, is reported in the press as confirming that "neither Mr. McDonald nor Bank of Boston had tried to intercede to get the investigation stopped."

The Bank now has filed reports for all the transactions that went unreported during the period of July 1980 through September 1984 and has instituted administrative policies and procedures to comply with the reporting requirements in the future.

In pleading guilty to one count of non-compliance with the Federal regulation and agreeing to pay the maximum statutory fine of \$500,000 for a single count, the Bank negotiated a settlement with the government. The potential penalties could have been far greater if various of the individual violations had been considered as separate counts.

The government has thoroughly investigated the Bank's compliance to date with the Currency and Foreign Transactions Reporting Act. As a result of that investigation, the government has determined not to bring any charges against the Bank other than those relating to the international transactions described in the Information. The plea agreement releases the Bank and its employees from any further liability relating to the reporting by the Bank of currency transactions that were the subject of the investigation. As far as we are concerned, therefore, the case is closed as to the Bank.

The Bank strongly supports the purpose of the government's investigations into illegal activities and at all stages of the investigation has cooperated fully. The government, of course, may at any time investigate transactions of particular customers.



The following statement was made today by William L. Brown, Chairman, Bank of Boston.

I have asked you here today for two reasons. The first is to correct some of the misimpressions that have been published and broadcast about Bank of Boston in connection with our plea of guilty to the charge of our failure to report certain international bank-to-bank currency transactions under the Currency and Foreign Transactions Reporting Act. We offer no excuses for our failure to report the international bank-to-bank currency transactions; for that failure we are sorry. We were at fault, have admitted it, and have paid the penalty. Our investigation of those transactions has found them to be transfers of dollars in the normal course of banking business to and from reputable foreign financial institutions, at their request. We have no reason to believe, as a result of our investigation that, except for the lack of reporting, there was anything irregular about those transfers. We are providing details on those international transactions in a background memorandum.

The second reason for this news briefing is that I am now able to talk more freely than I was a week ago about our banking relationships with the Angiulo family. The bank has been under restrictions preventing us from disclosing the transactions with the Angiulos. The public concern, however, has been such that we have gone to the Justice Department and asked them to permit us to talk freely. They have agreed.

The Angiulos have been customers of the bank for more than 20 years. Their transactions with the bank have been entirely domestic and have had nothing whatsoever to do with the bank's international currency shipments, or anything to do with the bank's failure to report international bank-to-bank currency transactions. The two matters are entirely different and separate, and I will deal with them separately here. But let me say at the outset, because there seems to be so much misunderstanding, that neither we nor, insofar as I know, the Justice Department nor anyone else has any evidence that the international transactions were in any way improper or had anything whatever to do with laundering money. In fact, these types of international transactions are a continuing part of the business of this and many other banks.

As to the Angiulos, the companies they controlled were placed on an exempt list in 1976 and 1979. It is important to understand what an exempt list is. It is a list of customers that handle large amounts of cash. What is exempted is the need for the bank to report to the IRS each customer transaction in excess of \$10,000. The exempt list flags for the Federal Government those customers that frequently deal in large cash transactions. The list has always been available for inspection at all times by the Treasury Department. There is nothing illegal about any customer -- whether or not on the exempt list -- depositing or withdrawing more than \$10,000. What is required is that immediate notification to the Treasury Department be made by the bank of such transactions by customers not on the exempt list. Records on all such transactions are available to the Treasury Department and bank examiners upon request, whether the customer is on the exempt list or not.

One Angiulo company, Huntington Realty Company, had been on such an exempt list since 1976. The other, Federal Investments, Inc., was added to the list in 1979. Such lists, as I have mentioned, are fully available to the government. In addition, more than a year ago, we turned over details of the Angiulos' individual transactions to a grand jury. We are providing details of these transactions in a second background memorandum.

We have concluded after thorough investigation that supervisory and operating personnel at the bank used poor judgment in putting the Angiulo companies on the exempt list. As a consequence we have revised and strengthened our procedures. Nevertheless, the very fact that the Angiulo companies were on the exempt list was clear-cut notice to the interested government agencies that these companies regularly dealt in large cash transactions.

Because our internal procedures failed to raise any questions regarding the Angiulos' accounts to the attention of top management, we have been at fault. Let me emphasize that we have been conducting investigations internally for a year and, again, we have no evidence whatsoever or any reason to believe, that any employee of the bank benefitted in any way from the transactions and accounts with the Angiulos. Any questions or even innuendo that there has been any "connection" with a crime syndicate is false.



While we support the Act's purpose to give the government an important tool to combat organized crime, I'd like to make it clear that the question of examining a customer's use of funds entrusted to the bank is not a normal part of banking practice. The Act does not impose an obligation upon banks -- or imbue them with the authority -- to investigate the activities of their customers beyond the normal recording of account information and verification of customer identity. To go beyond this raises serious questions about invasion of privacy. The whole banking community is reexamining its practices regarding the opening of new accounts. Certainly we at Bank of Boston are attempting to find proper answers. Part of the answer might be for the government to provide a list of individuals and companies that it believes should not have access to the banking system.

Management has thoroughly briefed the board of directors on all the details of our handling of all of the matters which I have discussed here today, and the board has expressed confidence in management. Nevertheless, as a result of the overall circumstances, I am convinced that a review of all of these matters is required in order to establish conclusively the soundness of the bank's operations and the integrity of its officers and employees. Accordingly, at my request, the board of directors has created a special committee consisting of five outside directors of the bank for this purpose.

The members of the special committee have elected George R. West as chairman. Mr. West is chairman and chief executive officer of Allendale Mutual Insurance Company. The other members include: Martin A. Allen, chairman of Computervision Corporation; Thomas A. Galligan, Jr., chairman, Boston Edison Company; Samuel Huntington, president and chief executive officer, New England Electric System; and J. Donald Monan, S.J., president of Boston College. A summary of the duties of the special committee is attached.

In conclusion, questions have been raised about whether the bank has taken these matters seriously enough. Let's not make any mistake about this. All of us have been not only distressed but deeply involved in getting at the truth through a thorough investigation. We are dedicated to making sure that all of the facts are laid out for our publics, and we ask your help in getting the story out. For thirty-five years I have been proud to say that I am associated with what I consider the finest bank in the world. I still am, and so are all my associates at Bank of Boston.

RESOLUTIONS ADOPTED AT SPECIAL MEETING OF BOARD OF DIRECTORS OF  
THE FIRST NATIONAL BANK OF BOSTON

February 20, 1985

**RESOLVED:** That the members of this Board state for the record of this meeting that they have been thoroughly briefed on the full facts regarding two separate matters: First the Bank's involvement with maintaining account relationships at its North End Boston Branch with members of the Anguilo family and with their two organizations, namely Huntington Realty and Federal Investments (the "Anguilo organizations") and the history of the maintenance of the Anguilo organizations on the Bank's "exempt list" under the provisions of the Currency and Foreign Transactions Reporting Act (the "Act") and Second, the history of the Bank's failure to report its foreign currency transactions with foreign banks from July 7, 1980 and its ultimate reporting of such transactions under the Act.

**FURTHER**

**RESOLVED:** That the Board of Directors expresses its complete confidence in and support of the management of the Bank in dealing with the currency transaction reporting failures of the Bank under the Act and states that at the recommendation of the Chairman of the Board, it has adopted the following RESOLUTIONS relating to the appointment of a Special Committee of the Board and establishing the duties of the Special Committee;

(Specific Resolutions describing duties of the Special Committee are elsewhere in the package.)

THE SPECIAL COMMITTEE

The Board of Directors has created a special committee consisting of five outside directors of the Bank. In creating the Special Committee, the Board has given it all necessary authority to perform the following specific duties with regard to the Bank and its affiliated companies:

1. to review the adequacy of the record compiled to date by management representatives on matters relating to the reporting of domestic and international currency transactions;
2. to review the chain of management authority for the purposes of determining at each relevant level the degree to which an individual manager should have reviewed or inquired about what actions his immediate subordinates should have taken regarding the reporting of domestic and international currency transactions and, based on that review, to recommend what, if any, individual disciplinary actions should be taken;
3. to review management's changes in the Bank's relevant policies, procedures, and systems which have been or will be effected to ensure that similar reporting failures and regulatory noncompliance do not occur in the future;
4. to review management's recommendations regarding the concept of a "know your customer" policy in light of (i) the goals of the President's Commission on Organized Crime, (ii) the traditional responsibility of banks to provide broad access to the deposit services of the banking system, and (iii) the ethical and practical problems associated with conducting a background check of each prospective depositor;
5. to review management's efforts to work with the President's Commission on Organized Crime as well as with legislative and regulatory representatives in considering all other appropriate policies and measures to ensure the proper role of financial services institutions in furthering the public interest in combating organized crime; and
6. to review all other matters and to make all other recommendations that the Special Committee deems necessary or appropriate in light of its foregoing specific duties.

The Board has authorized the Special Committee to hire all necessary staff, including independent auditors and counsel, to assist it in discharging its duties. In order to ensure that the Board can take any appropriate action in a timely fashion, the Board has directed that the Special Committee present its findings and recommendations to the Board within approximately 90 days.

MEMORANDUM CONCERNING  
INTERNATIONAL CURRENCY TRANSACTIONS

On February 7, Bank of Boston pleaded guilty to a charge filed by the U.S. Attorney's office in Boston that we had failed to file reports with the Internal Revenue Service concerning currency transactions between us and foreign banks. Under the Currency and Foreign Transactions Reporting Act (Title 31 of the U.S. Code), banks are required to report to the IRS cash transactions with foreign banks of amounts in excess of \$10,000.

As charged by the government, we did not file the required international currency transaction reports during the period from July 1980 to September 1984.

There are several points which need to be emphasized:

- o First, the shipments of currency -- whether from Bank of Boston to foreign banks or vice versa -- are strictly at the initiation of foreign banks and are either for deposit or withdrawal at each foreign bank's own account at Bank of Boston.
- o Second, only banks are involved in any way with these transactions on either the shipping or receiving end; no individual or other non-bank customer is involved.
- o Third, Bank of Boston has nothing to do with the decision of how much or in what form those shipments are made. In 99% of our shipments overseas, we are requested to and do ship in the form of "bricks" or bundles of new, sequentially numbered and recorded bills.

Bank of Boston has been engaged in international banking for many years. International banking has always involved the transfer of cash between banks in different countries, and Bank of Boston has historically participated in that business. Part of international banking is the business of providing to foreign correspondent banks U.S. currency when those banks request such shipments, and the receipt of U.S. currency from those foreign correspondent banks when they ship it into this country.

Western European banks are our primary customers for this service. These banks in turn maintain their own correspondent banking networks in their local markets and serve as clearing houses for their correspondents in satisfying other banks' requirements for U.S. currency.



There is nothing illegal or at all unsavory about a bank sending or receiving currency to or from another bank -- foreign or domestic. In this regard, it bears repeating that it is impossible for any individual to transfer cash overseas by utilizing this correspondent bank service; this service is strictly between banks. Again, it should be emphasized that all such transactions are initiated by the foreign banks for their own accounts and that virtually all cash shipped overseas by the Bank is provided directly by the Federal Reserve Bank of Boston in new, sequentially numbered and recorded bills. Additionally, when shipping currency from Boston, the Bank has always filed export declaration forms with U.S. Customs.

During the late 1970s and early 1980s, the Federal government began investigations into compliance by banks with currency reporting requirements. In 1983, the government commenced an inquiry concerning currency transactions at Bank of Boston. During the summer of 1984, it became apparent to the Bank that this inquiry would concern not only domestic currency transactions, but also international transactions. At that time, in preparation for an examination of its international area, the Bank began its own review of currency transactions with its foreign correspondent banks. It was discovered that although the Bank had been properly notified of changes in the international reporting requirements, the Bank did not incorporate this regulatory amendment into its operating procedures. Those procedures have now been completely updated to ensure compliance with the reporting requirements in the future.

The government has investigated the Bank's compliance to date with the Currency and Foreign Transactions Reporting Act. As a result of that investigation, the government has determined not to bring any charges against the Bank other than those relating to the international transactions. The Bank negotiated a plea agreement that releases the Bank and its employees from any further liability relating to the reporting of currency transactions that were the subject of the investigation.

The government does, however, reserve the right to proceed against the Bank or any employee if it determines that any employee was in complicity with any third party not to file currency transaction reports. The Bank has no evidence nor any reason to believe that any such complicity exists.

MEMORANDUM CONCERNING ANGIULO  
TRANSACTIONS AT THE BANK OF BOSTON

The Currency Reporting Statute and Regulations

As originally enacted in 1970, the Currency and Foreign Transactions Reporting Act (the "Act") did not itself impose on banks any reporting requirements with respect to domestic currency transactions. Rather, it provided only that reporting of currency transactions would be required in such circumstances as the Secretary of the Treasury provided. The Secretary first established domestic currency reporting requirements by regulations which became effective on July 1, 1972. These regulations required financial institutions to "file a report of each deposit, withdrawal, exchange of currency or other payment or transfer, by, through, or to such financial institution, which involves a transaction in currency [that is, cash] of more than \$10,000." 31 C.F.R. § 103.22(a) (1972). The regulations, however, provided for certain express exceptions to the reporting requirement, including the following:

(b) Except as otherwise directed in writing by the Secretary, this section shall not . . . require a bank to report transactions with an established customer maintaining a deposit relationship with the bank, in amounts which the bank may reasonably conclude do not exceed

amounts commensurate with the customary conduct of the business, industry or profession of the customer concerned. A report listing such customers who engage in transactions which are not reported because of the exemption contained in this paragraph shall be made to the Secretary upon demand therefor made by him.

31 C.F.R. § 103.22(b) (1972).

In response to the enactment of the 1972 regulations, on June 1, 1972, Banking Offices Administration of the First National Bank of Boston (the "Bank") sent a memorandum to all branches alerting them to the new regulations. This memorandum correctly set forth the requirements of the regulations, including the exception for "established customers that maintain a deposit relationship and who as a matter of course in conducting their business have currency transactions in excess of \$10,000." Further, it instructed each branch to prepare and submit by June 16, 1972 a current list of such customers. In response to the instruction, the North End branch office on June 9, 1972 submitted its list of customers, "who, as a matter of course in conducting their business, have currency transactions in excess of \$10,000."

During the period 1972 to 1983, the Bank issued frequent reminders, instructions and updates to branch offices concerning domestic currency transaction reporting. In addition, at regularly scheduled Operations Meetings, branch managers frequently were reminded and instructed concerning the requirement to report cash transactions over \$10,000 by

all customers except those which had been exempted in accordance with the regulations. At certain of these meetings, branch managers also were requested to update their lists of customers exempt from reporting. In response to these requests, the North End branch submitted updates to its initial exempt list from time to time.

#### The Angiulo Accounts

Huntington Realty Company ("Huntington") and Federal Investments, Inc. ("Federal") are businesses owned and operated by members of the Angiulo family. Huntington opened a checking account in 1964 and also maintained a savings account. Huntington is a partnership which operates a real estate agency at 95 Prince Street, a short distance from the Bank's North End office. A business certificate on file with the City of Boston since 1965 lists Nicolo, Jerry, Frank, Donato, Antonio (who is now deceased) and Michele Angiulo as doing business under the name Huntington Realty. Michael (Michele) Angiulo is licensed by the Massachusetts Division of Registration Real Estate Board.

Federal is a real estate mortgage concern which opened a checking account at the Bank in 1966. Records on file with the Massachusetts Secretary of State indicate that Federal is a corporation organized by James, Antonio and Frank Angiulo in 1966. Members of the Angiulo family also maintained individual checking and savings accounts at the Bank.

Although no Angiulo account was included on the exempt list as originally established in 1972, Huntington was added in 1976 to the Bank's list of customers which, because they were established depositors customarily conducting business in cash, were exempted from currency transaction reporting. Federal was added to the exempt list in 1979. Placing these accounts on the exempt list served to put the Government on notice that they were regularly dealing in large amounts of cash.

In 1980, new regulations narrowed the pertinent exemption to deposits and withdrawals by an operator of a retail type of business which provides goods to the ultimate consumer and is paid substantially in currency. When the amendments were issued, all branches, including the North End, were required to prepare and submit updated lists of exempt customers. When the North End branch updated its exempt list in response to the amended regulations, Huntington and Federal were carried forward on the list as depositors which operated a retail type of business and were paid in substantial portion in cash.

Account data at the North End branch indicated that Huntington and Federal were related entities which operated real estate businesses. As has been noted, Huntington operated a real estate agency, a principal of which was a licensed realtor, a short distance from the Bank's North End



branch.<sup>1</sup> Both Huntington and Federal owned property and collected rent and mortgage money from members of the public. Documentation available to the Bank in connection with the Huntington account indicated that Huntington collected rent and mortgage money on a regular basis.<sup>2</sup>

During the period that they were on the list, various individual members of the Angiulo family, who the Bank believed were acting on behalf of Huntington and Federal, conducted numerous cash transactions at the Bank which would have been reported had the accounts not been exempted. These transactions consisted primarily of purchases of cashier's checks for cash at the North End branch. During the years 1979-1983, Huntington and Federal purchased 452 cashier's checks totalling \$7,372,343.80. Of these, 163 cashier's checks totalling \$2,163,457.50 were for cash and would have been reportable had Huntington and Federal not been on the exempt list. The largest cash transaction

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<sup>1</sup> Huntington is listed at that address under the Real Estate heading in the yellow pages of the Boston Telephone Directory.

<sup>2</sup> For example, statements of the savings account which Huntington maintained at the North End branch of the Bank reflect regular monthly deposits of checks from the same entities, including commercial businesses and real estate entities, in regular amounts consistent with the payment of rent or mortgage. In addition, a number of checks bear on their face notations indicating that they are in payment of rent, mortgage interest, real estate taxes, or real estate brokerage fees.

during this period was the purchase of five \$50,000 cashier's checks payable to J. Angiulo for \$250,000 cash on February 13, 1980. In addition, certain cashier's checks were purchased for cash in reportable amounts by an attorney for the Angiulo interests and by Angiulo family relatives. None of the purchases of cashier's checks by Huntington, Federal or their representatives was reported on a currency transaction report form.

The Huntington partnership had a pattern of distributing the savings account balance at year end to the partners. Prior to 1982, the distribution was in large checks of about \$100,000. In December 1982, the distribution comprised 120 \$10,000 cashier's checks issued on December 22 through 24. These checks, like those in prior Decembers, were purchased with a savings withdrawal from the Huntington account. Since the transaction did not involve currency, the Bank was not required to submit currency reports about it. Checks purchased by Huntington were drawn to various payees, including taxing authorities, brokerage houses, the Angiulos themselves, and individuals.

Huntington has conducted no cash transactions over \$10,000 since October 1982; Federal has conducted no such transactions since January 1980. We are aware of no purchases of cashier's checks by Huntington or Federal, whether or not for cash, since January 1983. All

Huntington, Federal, and Angiulo checking and savings accounts have been closed.

The Bank's Treatment of the Exempt List

The failure to report the numerous cash transactions in these accounts until 1983 was not the result of any intent to evade the Act. Rather, Bank employees at all times believed that reports were not required under the circumstances and that they were complying with the Act.

The reason such transactions were not reported was simply that both Huntington and Federal were on the North End exempt list throughout the period in which the transactions in question occurred. Because these customers were on the exempt list, it would have been unnecessary - and indeed incorrect - to file reports of their cash transactions.

There is no evidence of which the Bank is aware to support an inference that either Huntington or Federal was ever placed or retained on the exempt list, or their transactions not reported, for any unlawful motive. There is no evidence whatever that any Bank employee ever participated in the business activities - lawful or unlawful - of either entity or otherwise profited from their exemptions or transactions.

Any suspicion that the Bank placed Huntington and Federal on the exempt list to conceal their cash transactions from the government is unfounded. Aside from

the question of lack of motivation, this simply does not make sense. Bank employees made absolutely no effort to conceal the cash transactions conducted by Huntington and Federal. In fact, far from concealing such transactions, the Bank highlighted the fact that Huntington and Federal were engaging in cash transactions by placing them on its list of customers exempt from reporting. By so doing, the Bank was giving notice to the responsible federal authorities that these entities regularly engaged in cash transactions over \$10,000.<sup>3</sup>

Under the regulations in effect both before and after 1980, the Bank's exempt list was always available upon request to the Secretary of the Treasury or his delegate. The Bank and its employees could only assume that the list would be examined at any time.

On April 28, 1982, the Department of the Treasury wrote the Bank to request a copy of its exempt list. On June 3, 1982, in response to this request, the Bank furnished a list of exempt customers of all branches as well as of its Coin and Currency Department. The list, of course, included

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<sup>3</sup> Indeed, a 1982 General Accounting Office Report to Congress concerning the Act noted that the lists of exemptions granted by financial institutions serve a useful law enforcement function.

Huntington and Federal, again demonstrating no effort to conceal.

The Treasury Department Office of Enforcement and Operations responded by letter of June 8, 1982. This letter for the first time raised an issue concerning the Bank's exempt list. In the letter, the author indicated that the list "[did] not meet the requirements of the regulations," and that he would require further information before granting approval for certain exemptions. Enclosed was a copy of the exempt list on which were noted those items as to which more information was required. Check marks were placed next to those specific items as to which additional information was needed, including, in particular, certain taxpayer identification numbers and local street addresses. In addition, X's were placed next to the names of "depositors that do not appear to be a type of establishment that a bank can put on its exemption list without the prior approval of the Treasury Department." The letter further indicated that "[b]efore such approval can be given, it will be necessary to have further information" concerning the exemptions in question. The letter did not state that any customers were to be deleted from the list pending such approval. Among the customers marked with both X's and check marks were Huntington and Federal.

On June 21, 1982, Banking Offices Administration notified each of the relevant branch offices, including the



North End branch, that Treasury had requested further information concerning certain exemptions, and asked that they provide the information required. The North End branch proceeded to gather the information requested by Treasury. Branch personnel wrote to both Huntington and Federal to request their taxpayer identification numbers, and obtained these numbers. It is clear that branch personnel treated Treasury's letter of June 8, 1982 as a request for further information to justify certain exemptions, and did not interpret it as requiring that these customers be removed from the list. This conduct further demonstrates the good faith of the Bank personnel. If they had believed that Huntington and Federal did not qualify for an exemption, there would have been no purpose in seeking their taxpayer identification numbers.

Banking Offices Administration also sent a copy of the letter of June 8, 1982 to the Bank's Coin and Currency Department, which was responsible for currency transactions with certain large domestic customers on the exempt list, including several which Treasury had questioned. That Department delayed for many months before answering the inquiry.

The delay in responding to this letter, however, was of little effect with respect to the Huntington and Federal exemptions. After June 1982, Federal conducted no cash transactions in amounts sufficient to trigger the reporting

requirements of the Act. Huntington conducted two such cash transactions after June 1982, but none after October 1982. These transactions occurred at a time when North End personnel continued to believe the exemption to be in effect, although a review of further information was pending.

In May 1983, the Bank received subpoenas concerning its compliance with the Act. These subpoenas triggered a review of the exempt list. The Huntington and Federal exemptions were then deleted.

February 21, 1985

REMARKS OF  
  
WILLIAM L. BROWN  
CHAIRMAN  
  
AT THE  
  
BANK OF BOSTON CORPORATION  
  
ANNUAL MEETING  
  
MARCH 28, 1985

WILLIAM L. BROWN  
ANNUAL MEETING  
MARCH, 1985

THANK YOU, IRA.

I HAVE A NUMBER OF TOPICS TO COVER WITH YOU TODAY. AS IS THE NORMAL PROCEDURE, WE ASK THAT YOU RESERVE YOUR QUESTIONS UNTIL THE DESIGNATED TIME. WHEN WE'LL MAKE EVERY EFFORT TO BE RESPONSIVE.

I'D LIKE TO BEGIN BY DISCUSSING A TOPIC THAT HAS BEEN UTMOST IN OUR MINDS OVER THE PAST SEVERAL WEEKS AT BANK OF BOSTON. I AM REFERRING TO TWO SEPARATE AND DISTINCT ISSUES. FIRST, OUR FAILURE TO REPORT TO THE INTERNAL REVENUE SERVICE APPROXIMATELY \$1.2 BILLION IN INTERNATIONAL BANK-TO-BANK TRANSACTIONS. SECOND, OUR PERMITTING CUSTOMERS REPUTED TO BE ASSOCIATED WITH ORGANIZED CRIME TO REMAIN ON AN EXEMPT LIST IN OUR NORTH END BRANCH, THEREBY ALLOWING THEM THE OPPORTUNITY TO CONDUCT CERTAIN TRANSACTIONS WITHOUT THEIR BEING REPORTED DIRECTLY TO THE GOVERNMENT.

THE EVENTS OF THE LAST FEW WEEKS HAVE MADE IT CLEAR THAT FINANCIAL INSTITUTIONS MUST TAKE A MORE ACTIVE, COOPERATIVE ROLE IN WORKING CLOSELY WITH THE LAW ENFORCEMENT AUTHORITIES TO PREVENT THE MISUSE OF OUR FINANCIAL SYSTEM.

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WE RECOGNIZE THAT WE HAVE A MORAL AND ETHICAL OBLIGATION TO ASSUME A GREATER RESPONSIBILITY FOR IDENTIFYING POSSIBLE ILLEGAL ACTIVITY. WE AT BANK OF BOSTON ARE MOVING AHEAD TO SEE THAT PROPER PROCEDURES AND SYSTEMS ARE IN PLACE TO THE EXTENT POSSIBLE TO ASSURE COMPLIANCE WITH BOTH THE REQUIREMENTS AND THE SPIRIT OF FEDERAL LAW.

THE PRESIDENT'S COMMISSION ON ORGANIZED CRIME HAS FOCUSED ON THESE ISSUES. THEIR INTERIM REPORT SHOULD SERVE AS THE BASIS BOTH FOR FUTURE LEGISLATION AND FOR A COOPERATIVE EFFORT BY THE BANKING INDUSTRY TO IMPLEMENT ITS RECOMMENDATIONS. I PLEDGE BANK OF BOSTON'S FULL COOPERATION TO THAT END.

I WILL DEAL SEPARATELY WITH THE TWO DISTINCT ISSUES AT HAND. FIRST THE ISSUE OF THE INTERNATIONAL BANK-TO-BANK TRANSACTIONS. INTERNATIONAL BANK-TO-BANK TRANSACTIONS ARE PERFECTLY LEGAL AND AS SUCH ARE NOT MONEY LAUNDERING, DESPITE WHAT YOU MAY HAVE SEEN REPORTED IN THE NEWS MEDIA. WHAT TAKES PLACE BEFORE THE CURRENCY IS SHIPPED BETWEEN BANKS MIGHT INVOLVE MONEY LAUNDERING, BUT WE HAVE NO KNOWLEDGE OF THAT. BUT, AGAIN, THESE TRANSACTIONS ARE PERFECTLY LEGAL AND ARE RECOGNIZED AS SUCH BY FEDERAL REGULATORS. THE FEDERAL PROCEDURE WE VIOLATED WAS FAILURE TO REPORT THESE TRANSACTIONS, NOT THE ACTUAL BANK-TO-BANK TRANSACTIONS THEMSELVES. PLEASE UNDERSTAND, I AM NOT MINIMIZING OUR MISTAKES. RATHER, I AM FOCUSING ON WHAT OUR MISTAKES WERE, NOT WHAT OTHERS MAY READ INTO THEM.



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SUCH BANK-TO-BANK TRANSACTIONS ARE COMMONPLACE IN TODAY'S INTERNATIONAL FINANCIAL MARKETPLACE. THE PARTICIPANTS IN THIS BUSINESS INCLUDE MANY OF OUR NATION'S AND THE WORLD'S LARGEST BANKS INVOLVED IN INTERNATIONAL CORRESPONDENT BANKING SERVICES.

I WANT TO EMPHASIZE THAT THE FEDERAL GOVERNMENT WAS MADE AWARE OF THESE SHIPMENTS. ALL OUTGOING SHIPMENTS OF CURRENCY TO OUR FOREIGN CORRESPONDENT BANKS WERE REPORTED TO U.S. CUSTOMS. ALL INCOMING SHIPMENTS ARE, BY PROCEDURE, REPORTABLE TO U.S. CUSTOMS BY THE FOREIGN SHIPPING BANK.

THESE TRANSACTIONS WERE WITH LARGE, REPUTABLE BANKS, PRINCIPALLY SWISS, AND SHIPMENTS TOOK PLACE ONLY AT THEIR DIRECT REQUEST. THIS WAS, AND CONTINUES TO BE, A CLOSED, BANK-TO-BANK LOOP IN WHICH NO INDIVIDUALS OR COMPANIES ARE INVOLVED.

SWISS BANKS GENERALLY ACT AS CLEARING BANKS AND, AS SUCH, MONEY FLOWS INTO THEIR VAULTS FROM CORRESPONDENT BANKS ALL OVER EUROPE. THIS CASH MAY EMANATE FROM INDIVIDUALS AS WELL AS COMPANIES, AND CAN BE THE RESULT OF U.S. TOURIST AND LEGITIMATE BUSINESS DOLLARS SPENT ABROAD. ONCE THE CURRENCY IS IN THEIR VAULTS, THESE BANKS HAVE MANY CHOICES: THEY MAY SHIP THE CURRENCY TO US HERE IN BOSTON, TO A NUMBER OF NEW YORK CITY BANKS, OR TO OTHER LARGE MONEY-CENTER BANKS. WE HAVE NO MEANS OF KNOWING THE ORIGINAL SOURCE OF THE CURRENCY SHIPPED TO BOSTON BY THE FOREIGN BANKS OR THE USE TO WHICH THEY PUT THE CURRENCY WE SENT TO THEM.

I CAN ONLY STRESS THAT WE WOULD NOT KNOWINGLY ENGAGE IN, OR ASSIST OTHERS TO ENGAGE IN, MONEY LAUNDERING.

NO ONE IS MORE DISTURBED THAN I THAT BANK OF BOSTON HAD TO PLEAD GUILTY IN EARLY FEBRUARY TO A FAILURE TO REPORT INTERNATIONAL CURRENCY TRANSACTIONS. FOR THESE MISTAKES WE HAVE PAID A HEAVY FINE. BUT THAT IS BEHIND US NOW. WE ARE IN THE PROCESS OF IMPROVING OUR INTERNAL PROCEDURES, IN ORDER TO AVOID SUCH MISTAKES IN THE FUTURE.

WE HAVE BEEN CONTINUING OUR OWN INTERNAL REVIEW OF COMPLIANCE WITH THE BANK SECRECY ACT ON AN EXPANDED BASIS, THROUGHOUT THE ENTIRE BANK OF BOSTON ORGANIZATION. THROUGH THESE EFFORTS SINCE OUR GUILTY PLEA, WE HAVE FOUND ADDITIONAL CURRENCY TRANSACTIONS WHICH WERE NOT PREVIOUSLY REPORTED UPON. THESE TRANSACTIONS HAVE BEEN VOLUNTARILY FILED WITH THE U.S. GOVERNMENT.

AS PART OF THIS EFFORT, YESTERDAY WE FILED APPROXIMATELY 1200 TRANSACTION REPORTS, REPRESENTING APPROXIMATELY \$110 MILLION. ABOUT 800 OF THESE TRANSACTIONS, AMOUNTING TO ALMOST \$20 MILLION, REPRESENT FOREIGN EXCHANGE TRANSACTIONS WITH CANADIAN BANKS DATING FROM JULY, 1980. THE VAST MAJORITY OF THESE TRANSACTIONS WITH CANADIAN BANKS WAS CONDUCTED BY CASCO-NORTHERN BANK, OUR MAINE-BASED BANKING SUBSIDIARY WHICH WE ACQUIRED IN MARCH 1984. THE BULK OF THE DOLLARS, APPROXIMATELY \$73 MILLION, REPRESENTS 59 BANK-TO-BANK TRANSACTIONS BETWEEN THE CENTRAL BANK OF HAITI AND BANK OF BOSTON'S INTERNATIONAL BANKING SUBSIDIARY IN MAINE. BOSTON

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OUR INTERNAL REVIEW IS CONTINUING. SHOULD WE FIND ANY ADDITIONAL TRANSACTIONS THEY, OF COURSE, WILL BE REPORTED.

NOW LET ME TURN TO THE WHOLLY UNRELATED MATTER OF DOMESTIC BANKING TRANSACTIONS AT OUR NORTH END BRANCH OFFICE BY MEMBERS OF THE ANGIULO FAMILY. THE ORIGINAL REGULATIONS UNDER THE BANK SECRECY ACT REQUIRED BANKS TO REPORT CASH TRANSACTIONS BY CUSTOMERS IN AMOUNTS OVER \$10,000. YET, RECOGNIZING THAT MANY BUSINESSES REGULARLY DEAL IN LARGE AMOUNTS OF CASH, THE REGULATIONS ALSO PROVIDED FOR CERTAIN EXEMPTIONS FROM THAT REPORTING REQUIREMENT, IN ORDER TO REDUCE ADMINISTRATIVE BURDENS ON BANKS AS WELL AS THE IRS. BOTH THE EXEMPT LIST AND THE INDIVIDUAL REPORTS ARE MEANS FOR THE GOVERNMENT TO IDENTIFY CUSTOMERS DEALING IN LARGE SUMS OF CASH. OUR LIST OF EXEMPT CUSTOMERS WAS AT ALL TIMES AVAILABLE FOR INSPECTION BY THE GOVERNMENT.

IN THE MID- TO LATE-1970S, TWO REAL ESTATE COMPANIES CONTROLLED BY THE ANGIULOS WERE PLACED ON THE LIST THAT EXEMPTED THEIR CASH TRANSACTIONS FROM REPORTING. THEIR PROPER INCLUSION ON THIS EXEMPT LIST MEANT THAT THE COMPANIES REGULARLY DEALT IN LARGE SUMS OF CASH AND THAT THE BANK DID NOT HAVE TO FILE A SEPARATE REPORT FOR EACH CASH DEPOSIT OR WITHDRAWAL OF MORE THAN \$10,000.

THE REGULATIONS UNDER THE BANK SECRECY ACT WERE AMENDED IN 1980 TO LIMIT THE EXEMPT LIST PRINCIPALLY TO RETAIL-TYPE BUSINESSES. UNDER THESE AMENDED REGULATIONS, THE ANGIULO BUSINESSES NO LONGER QUALIFIED TO BE ON THE EXEMPT LIST.

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YET, THROUGH THE EXERCISE OF POOR JUDGMENT ON THE PART OF VARIOUS OF OUR SUPERVISORY AND OPERATING PERSONNEL, THESE COMPANIES WERE RETAINED ON THE LIST.

I WOULD LIKE TO STRESS, HOWEVER, THAT OUR INVESTIGATION HAS GIVEN US NO REASON TO BELIEVE THAT ANY BANK PERSONNEL ACTED OUT OF IMPROPER MOTIVE OR IN ANY WAY BENEFITTED FROM PLACING OR KEEPING THE ANGIULO COMPANIES ON THIS LIST. FINALLY, I WANT TO EMPHASIZE ONCE AGAIN, THAT THESE TRANSACTIONS HAD NOTHING TO DO WITH THE REPORTING VIOLATIONS IN THE INTERNATIONAL BANK-TO-BANK TRANSACTIONS, AND THERE IS NO CONNECTION BETWEEN THOSE DOMESTIC TRANSACTIONS AND INTERNATIONAL BANK-TO-BANK TRANSACTIONS.

BUT ENOUGH ON THE PAST. THE QUESTION NOW IS WHAT ARE WE DOING TO ENSURE FUTURE COMPLIANCE WITH REPORTING REQUIREMENTS, AND TO BE AS CERTAIN AS WE REASONABLY CAN, THAT OUR BANK WILL NOT BE USED TO LAUNDER MONEY?

WE ARE TAKING A SERIES OF STEPS. FIRST, WE ARE INSTITUTING NEW OPERATING PROCEDURES TO ASSURE THAT EVERY TRANSACTION THAT SHOULD BE REPORTED IS ACTUALLY REPORTED. WE ALSO HAVE STRENGTHENED OUR MEANS OF SUPERVISING THESE PROCEDURES AND HAVE APPOINTED ADDITIONAL COMPLIANCE OFFICERS TO ASSURE THAT OUR PROCEDURES ARE FOLLOWED TO THE LETTER.

WE ARE INITIATING MORE EXTENSIVE TRAINING FOR MANAGERS AND EMPLOYEES TO HELP THEM RECOGNIZE SUSPECT TRANSACTIONS. ALSO, WE ARE DEVISING MORE COMPREHENSIVE PROCEDURES TO ENSURE COMPLIANCE WITH THE BANK SECRECY ACT.

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WE HAVE ALSO CREATED A TASK FORCE OF HIGH-RANKING BANK OFFICERS TO DEVELOP A MORE INCLUSIVE REGULATORY COMPLIANCE PROGRAM. TAKING INTO CONSIDERATION ALL RELEVANT LAWS AND REGULATIONS. FROM THE WORK OF THIS TASK FORCE, WE ARE DEVELOPING A COMPLIANCE SYSTEM FOR BANK OF BOSTON THAT MIGHT SERVE AS A MODEL FOR ALL OTHER BANKS.

MOREOVER, WE ARE NOW WORKING ON A "KNOW YOUR CUSTOMER" POLICY AIMED AT PREVENTING INDIVIDUALS AND BUSINESSES FROM GAINING ACCESS TO THE BANKING SYSTEM FOR ILLICIT PURPOSES. WHILE THIS IS AN EXTREMELY DELICATE AREA AND INVOLVES PRIVACY ISSUES OF IMPORTANCE TO ALL OF US. I AM CONFIDENT THAT WE CAN STRENGTHEN OUR PROCEDURES IN THIS AREA TO SCREEN BANK CUSTOMERS. THE STRENGTH OF OUR EFFORTS WILL DEPEND IN LARGE PART ON THE EXTENT TO WHICH INFORMATION IS SHARED WITH, AND BY, GOVERNMENTAL AGENCIES, AND THE EXTENT TO WHICH CONGRESS PROVIDES BANKS PROTECTION IF WE ARE TO ACT IN A QUASI-INVESTIGATORY MANNER.

AS PREVIOUSLY ANNOUNCED, A SPECIAL COMMITTEE OF THE BOARD OF DIRECTORS OF THE BANK, CONSISTING OF FIVE OUTSIDE DIRECTORS, HAS BEEN CREATED TO REVIEW ALL OF THESE MATTERS IN ORDER TO CONFIRM THE SOUNDNESS OF THE BANK'S OPERATIONS AND THE INTEGRITY OF ITS OFFICERS AND EMPLOYEES. THEIR REPORT IS DUE BY THE END OF MAY. BEFORE CONCLUSION OF THIS MEETING, I WILL CALL ON THE COMMITTEE'S CHAIRMAN, GEORGE WEST, FOR AN UPDATE ON THEIR WORK.



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FINALLY. I WOULD LIKE TO ASSURE YOU THAT WE CONTINUE TO MONITOR THE REACTION OF OUR VARIOUS PUBLICS TO THESE EVENTS. WE ARE TREMENDOUSLY GRATIFIED BY THE VOLUME OF POSITIVE MAIL AND TELEPHONE CALLS WE'VE RECEIVED FROM CUSTOMERS AND FRIENDS OF THE BANK OVER THE PAST SEVERAL WEEKS.

NOW. LET ME TURN TO OTHER MATTERS. LAST YEAR AT THIS MEETING OF SHAREHOLDERS. I DESCRIBED FOR YOU THE ESSENTIAL OBJECTIVES OF OUR STRATEGIC PLANNING EFFORTS. I NOTED. IN PARTICULAR. THAT WE WERE IN THE PROCESS OF CHANGING OUR ORGANIZATION STRUCTURE IN ORDER TO CARRY FORWARD OUR STRATEGIC PLANS AND. THUS. TO HELP US BETTER COMPETE IN THE FINANCIAL SERVICES INDUSTRY IN THE YEARS AHEAD.

AS OF THE FIRST OF THIS YEAR. WE FORMALLY SET OUR STRATEGIC PLAN IN MOTION. CULMINATING OUR EFFORTS OF THE PAST TWO YEARS AND POSITIONING YOUR CORPORATION TO CAPITALIZE ON THE CHARACTERISTICS THAT HAVE MADE US A LEADER AMONG AMERICAN BANKING COMPANIES. THE SPECIAL SECTION OF THIS YEAR'S ANNUAL REPORT GOES INTO THE DETAIL OF OUR CORPORATE REORGANIZATION AND DESCRIBES THE NEW DIRECTION UPON WHICH WE'VE EMBARKED. IF YOU'VE NOT ALREADY DONE SO. I'D ENCOURAGE YOU TO TAKE THE TIME TO LOOK OVER THE 1984 REPORT.

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AS YOU KNOW, A KEY ELEMENT OF OUR STRATEGY HAS BEEN TO MAINTAIN OUR POSITION AS THE NEW ENGLAND REGION'S PREEMINENT FINANCIAL INTERMEDIARY. INTERSTATE EXPANSION THROUGHOUT THE REGION HAS BEEN A PART OF THIS PLAN WE'VE ARTICULATED FOR SEVERAL YEARS. LAST YEAR, OF COURSE, WITH OUR ACQUISITION OF MAINE'S CASCO-NORTHERN CORPORATION, WE TOOK A SIGNIFICANT STEP TOWARD THAT GOAL.

OUR ACQUISITION AGREEMENTS WITH COLONIAL BANCORP IN CONNECTICUT AND RIHT FINANCIAL IN RHODE ISLAND HAVE BEEN, HOWEVER, TEMPORARILY HALTED, PENDING A CONSTITUTIONALITY SUIT NOW BEFORE THE SUPREME COURT OF THE UNITED STATES. THIS SUIT CHALLENGES THE PROVISIONS OF SOME INTERSTATE BANKING LAWS THAT ALLOW RECIPROCITY ONLY WITH OTHER NEW ENGLAND STATES. WE CONTINUE TO BELIEVE THAT THE CONSTITUTIONALITY OF THESE STATUTES WILL ULTIMATELY BE UPHELD BY THE HIGH COURT. YET UNTIL THEIR DECISION IS MADE, THE CONSUMMATION OF OUR AGREEMENTS IN CONNECTICUT AND RHODE ISLAND -- AND THE PENDING AGREEMENTS OF SEVERAL OTHER BANKING COMPANIES IN NEW ENGLAND -- HANG IN THE BALANCE.

IN FACT, THE ENTIRE NOTION OF INTERSTATE BANKING, WHETHER ACCOMPLISHED THROUGH ACQUISITION AND MERGER OR THROUGH ESTABLISHMENT OF SO-CALLED "NONBANK BANKS," IS A TOPIC OF CONSIDERABLE INTEREST TO LAWMAKERS AND REGULATORS AT BOTH THE STATE AND FEDERAL LEVELS OF GOVERNMENT.

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WE CONTINUE TO SUPPORT THE SYSTEMATIC TOPPLING OF GEOGRAPHIC AND OTHER BARRIERS THAT RESTRICT THE FREE-MARKET, COMPETITIVE DELIVERY OF FINANCIAL SERVICES. AND CONSISTENT WITH OUR STRATEGIC GOALS, WE WILL CONTINUE TO PURSUE OPPORTUNITIES AS THEY PRESENT THEMSELVES.

NEXT, I WOULD LIKE TO UPDATE YOU ON A NUMBER OF OTHER ISSUES -- FIRST, OUR ANNOUNCEMENT EARLIER THIS WEEK THAT WE WOULD DISCONTINUE ALL REMAINING LENDING ACTIVITY IN THE REPUBLIC OF SOUTH AFRICA. AS YOU KNOW, SINCE 1978, YOUR CORPORATION HAS HAD A POLICY OF MAKING NO NEW LOANS TO THAT GOVERNMENT, AND BY MID-1980, ALL SUCH LOANS HAD RUN OFF. UNTIL THIS WEEK'S ANNOUNCEMENT, OUR EXPOSURE IN SOUTH AFRICA HAD BEEN CONFINED TO TRADE-RELATED, SHORT-TERM FINANCING UNDER LINES OF CREDIT FOR PRIVATE SOUTH AFRICAN BANKS AND A FEW TERM LOANS, ALSO TO PRIVATE BANKS.

THE OPPRESSIVE NATURE OF APARTHEID HAS CONTINUED UNABATED IN THAT COUNTRY, DESPITE THE OUTRAGE EXPRESSED FROM VARIOUS QUARTERS AROUND THE GLOBE. IN THE LONG RUN, WE BELIEVE THIS MAY LEAD TO FURTHER POLITICAL AND ECONOMIC INSTABILITY. AND, WE HAVE, THEREFORE, TERMINATED ALL LENDING ACTIVITY IN SOUTH AFRICA.

LAST YEAR, BOTH IRA AND I COMMENTED ON THE FACT THAT CERTAIN COUNTRIES WERE EXPERIENCING SERIOUS FOREIGN EXCHANGE LIQUIDITY PROBLEMS. WHILE THESE PROBLEMS ARE NOT TOTALLY

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MEXICO CONTINUES TO SERVICE ITS DEBT SATISFACTORILY, WHILE VENEZUELA IS BEGINNING TO RESTRUCTURE ITS PRIVATE DEBT. WE ARE HOPEFUL THAT OUR TOTAL NON-ACCRUAL LOANS IN THESE TWO COUNTRIES WILL BE BELOW THIS PAST DECEMBER'S FIGURE OF \$66 MILLION.

ALTHOUGH THE NEGOTIATIONS TO RESCHEDULE BRAZIL'S 1985 TO 1991 MATURITIES WERE SUSPENDED IN FEBRUARY WHEN THE IMF DID NOT AGREE TO WAIVE THE MISSED TARGETS. IT WOULD APPEAR THAT BRAZIL NEEDS NO NEW MONEY THIS YEAR, DUE TO ITS EXPORTING ABILITY.

THE SITUATION IN ARGENTINA IS A LITTLE MORE TROUBLING, AS THE IMF IS STILL IN NEGOTIATIONS WITH THAT COUNTRY. ONCE AN AGREEMENT HAS BEEN REACHED, \$4.2 BILLION WILL BE SUBJECT TO RELEASE BY THE CREDITOR BANKS; OF THAT AMOUNT OUR SHARE IS \$52 MILLION.

OF COURSE, CONTINUING PROGRESS IN ALLEVIATING THE DEBT PROBLEMS OF DEVELOPING COUNTRIES WILL DEPEND MOST IMPORTANTLY ON SUSTAINED GROWTH IN THE U.S. AND WORLD ECONOMIES. I WOULD HAVE TO NOTE HERE THAT WE EXPECT SOLID, BUT CERTAINLY NOT SPECTACULAR, GROWTH IN THE U.S. ECONOMY DURING 1985, WITH REAL GNP REGISTERING AN AVERAGE ANNUAL GAIN OF ABOUT 3 TO 3-1/2 PERCENT. THIS IS ALL THE MORE ENCOURAGING SINCE THIS ONGOING EXPANSION SHOULD NOT BE ACCOMPANIED BY ANY APPRECIABLE RISE IN PRICES.

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RECENT EXPERIENCE SUGGESTS, HOWEVER, THAT LARGE IMBALANCES IN BOTH THE FEDERAL BUDGET AND IN OUR NATION'S TRADE ACCOUNTS DO POSE SOME WORRISOME RISKS TO THE LONGER TERM ECONOMIC OUTLOOK. PROSPECTS FOR SUSTAINED EXPANSION OVER THE LONGER TERM WOULD BE MUCH IMPROVED, WE BELIEVE, IF THE ADMINISTRATION AND THE CONGRESS WERE TO ACT PROMPTLY TO BRING THE GOVERNMENT'S SPENDING AND REVENUE PATHS INTO CLOSER ALIGNMENT.

BANK OF BOSTON HAS BEGUN 1985 IN A STRONG FINANCIAL POSITION, AND I AM PLEASED TO REPORT TO YOU THAT WE ARE NOW ESTIMATING FIRST QUARTER EARNINGS TO BE APPROXIMATELY \$2.20 PER SHARE OR ABOUT 70 PERCENT HIGHER THAN LAST YEAR'S \$1.31. THIS IMPROVEMENT INCLUDES A GAIN OF ABOUT 30 CENTS PER SHARE FROM OUR SALE ANNOUNCED LAST MONTH OF MCI COMMUNICATIONS CORPORATION COMMON STOCK, WHICH WAS ACQUIRED IN AN EARLIER LOAN RESTRUCTURING. THIS PERCENTAGE INCREASE FOR THE QUARTER WILL NOT CONTINUE FOR THE YEAR AS A WHOLE. I WOULD SAY THAT WE ARE ONCE AGAIN CAUTIOUSLY OPTIMISTIC IN OUR OUTLOOK.

THE PASSING OF 1984 BROUGHT TO A CLOSE TWO VERY ACTIVE CAREERS WITH THIS ORGANIZATION -- THOSE OF YOUR FORMER CHAIRMAN RICHARD D. HILL AND VICE CHAIRMAN GEORGE E. PHALEN. THE CONTRIBUTIONS MADE BY BOTH OF THESE FINE MEN DURING THEIR LONG TENURES WITH BANK OF BOSTON HAVE BEEN REMARKABLE, AND WE ARE GRATEFUL FOR THEM.



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BOTH MEN WILL BE ACTIVE IN RETIREMENT, AND WE LOOK FORWARD TO DICK'S CONTINUING COUNSEL AS A MEMBER OF YOUR BOARD OF DIRECTORS.

BEFORE MOVING TO THE NEXT SEGMENT OF THE PROGRAM, LET ME ANNOUNCE THAT COPIES OF IRA'S AND MY PRESENTATIONS TODAY, ALONG WITH MY SENATE TESTIMONY, WILL BE AVAILABLE FOLLOWING THE MEETING.

FINALLY, LET ME CLOSE MY FORMAL REMARKS BY EXPRESSING OUR THANKS FOR THE SUPPORT WE HAVE RECEIVED FROM OUR DIRECTORS. AND, LET ME RECOGNIZE THE ENTIRE WORLDWIDE STAFF OF THE BANK OF BOSTON ORGANIZATION, WHOSE IMAGINATION, DEDICATION AND HARD WORK ARE AT THE CORE OF ALL THAT YOUR CORPORATION REPRESENTS. THE PAST SEVERAL WEEKS HAVE BEEN TRYING FOR ALL OF US. OUR STAFF HAS PULLED CLOSELY TOGETHER DURING THIS DIFFICULT TIME, AND WE SINCERELY APPRECIATE THAT SUPPORT.

THANK YOU.

Memorandum Prepared by Attorneys for Bank of Boston Elaborating on  
Disclosures at Annual Meeting of March 28, 1985

on  
March 27, 1985 the First National Bank of Boston made an additional back-filing of Currency Transaction Reports with the Justice Department. — during the course of a review by the Bank of all aspects of its operations to ensure compliance with the Currency and Foreign Transactions Reporting Act, a number of additional, previously unreported transactions, similar to those between the Bank's Coin and Currency Department and foreign banks which were previously reported, came to light. It is these transactions which were reported on March 27. They consist of the following:

1. Transactions between certain Canadian banks and Casco Northern Bank, N.A., now a wholly-owned subsidiary of Bank of Boston Corporation operating in the state of Maine. These transactions, all of which occurred during the period July 1980 through January 1985, include 528 deposits of United States currency by Canadian banks into their accounts at Casco Northern, totalling \$13,178,411; 111 purchases of cashier's checks at Casco Northern by Canadian banks, totalling \$1,618,239; and 129 deposits of Canadian currency by Casco Northern into its account at National Bank of Canada, which deposits had a total value in U.S. dollars of \$3,795,729.60.

2. Transactions between the Bank of Boston International-South in Miami ("BBI-South"), a subsidiary of Bank of Boston Corporation, and Banque de la Republique d'Haiti, the central bank of Haiti. Between July 1980 and January 1985, Banque de la Republique made 59 deposits of

coin and currency totalling \$72,994,080 into its account at BBI-South. In all cases, the cash was delivered to the Southeast First National Bank of Miami, never to BBI-South. Southeast would credit the deposit to the account of BBI-South, which would in turn credit the account of Banque de la Republique. The Bank was advised that Southeast did not file CTRs on these transactions.

In addition, the First National Bank of Boston's Chile branch made three cash deposits totalling \$4,540,000 to its account at BBI-South during 1983. As with the transactions described immediately above, the cash was delivered directly to Southeast.

3. One deposit of \$137,000 by the First National Bank of Boston's Curacao branch at BBI-South on January 1, 1984. This currency was shipped to, and deposited into the account of BBI-South at, Southeast First National Bank of Miami.

4. One deposit of \$67,080 in coin by the First National Bank of Boston's Curacao branch at the First National Bank of Boston's Puerto Rico branch on May 17, 1984.

5. Three transactions between the Bank of Boston International-Los Angeles, a subsidiary of Bank of Boston Corporation, and Banco Occidental de Mexico, S.A. ("Banco Occidental"). During February and March 1981, Banco Occidental made three cash deposits to its account at BBI-Los Angeles, which deposits totalled \$597,700. In all cases, the cash was deposited to the account of BBI-Los Angeles at American City Bank in Los Angeles. Because the transportation of currency in these three instances was not conducted by common carrier or the postal service, these three transactions were included in the back-filing.

6. Transactions between the foreign tellers of the First National Bank of Boston and other financial institutions. The foreign tellers conduct transactions in foreign currency with Bank customers, and have regularly filed CTRs for such transactions. However, certain wholesale purchases and sales of foreign currency to and from other financial institutions were not previously reported. These transactions include 265 shipments of foreign currency, with a total value in U.S. dollars of \$8,640,350.56, to Manfra, Tordella, and Brookes ("Manfra"), a foreign currency dealer in New York City. These shipments were paid for by debiting the account of Manfra at the First National Bank of Boston. These shipments occurred between

July 1980 and January 1985. During the same period, the Bank received from Manfra 74 shipments of foreign currency for use by their foreign tellers with a total U.S. dollar value of \$1,127,323.77, which were paid for by crediting Manfra's account at the Bank. Similarly, during 1983, the Bank received three shipments of foreign currency, with a U.S. dollar value of \$373,612.50, from Deak Perera, a local foreign currency dealer. The Bank purchased the foreign currency by crediting the account of Deak at the Bank. Finally, during 1980 through 1982, the Bank made 29 shipments of Canadian currency with a total value in U.S. dollars of \$1,558,303.56 to the Royal Bank of Canada. In all cases, the currency was deposited by the Bank into its own account at the Royal Bank of Canada.

7. Several domestic transactions at various Suffolk County branches which the Bank determined should have been reported. Currency Transaction Reports for these transactions were filed directly with the IRS in Ogden, Utah; copies will be furnished to the Department of Justice in Boston.

In addition, we reported to the Justice Department that it has recently come to our attention that Citgo and Merit Oil Company made cash deposits in reportable amounts into their accounts at Bank of Boston-West, a subsidiary of Bank of Boston Corporation in Springfield. Both customers operate a number of gas stations and are thus retail businesses clearly entitled to an exemption from currency transaction reporting under 31 C.F.R. §103.22(b)(2)(i). However, the customers were not included on the exempt list maintained by Bank of Boston-West. They are now being added to the list.



## A 2d Bank in Boston Says It Didn't Report Big Cash Transfers

By FOX BUTTERFIELD

Special to The New York Times

BOSTON, March 8 — The Shawmut Bank of Boston, the third-largest bank in Massachusetts, disclosed today that it had failed to report some international cash transactions and had improperly exempted some of its customers from Federal currency-reporting regulations.

In a statement, the Shawmut Bank said it had discovered the errors last month after the Bank of Boston pleaded guilty to failing to report \$1.2 billion in cash transfers with Swiss banks and was fined \$500,000, a record amount. The Bank of Boston has since also said that it improperly exempted businesses of a local organized crime family from the currency-reporting rules.

In its statement, the Shawmut Bank said it had failed to report \$162 million in cash transfers since 1980 with seven foreign banks, including banks in Spain, Portugal, Ireland, Canada and Switzerland. The statement said 27 customers, including schools, churches, hospitals, airlines and commercial companies, had been improperly placed on the bank's list of concerns exempted from the reporting rules. The bank would not identify them except to

Continued on Page 22, Column 4

## 2d Bank Discloses Cash Transfers

Continued From Page 1

any they were longtime clients.

The Shawmut Bank said it had met on Feb. 19 with officials from both the Treasury Department and the Office of the Comptroller of the Currency and had now filed all the necessary reports. These actions appeared to be intended to head off any prosecution of the bank similar to what happened to the Bank of Boston.

Under 1980 regulations, banks must report cash transactions over \$10,000 to the Internal Revenue Service, including transfers with foreign banks. This rule was designed to help the Government stop organized crime and narcotics dealers from laundering money.

The Bank of Boston's exemption of some clients from the reporting rules apparently helped a crime family to launder money, disclosing illegally obtained funds by transferring them through legitimate commercial concerns. The Bank of Boston said it had been an unwitting party to the laundering.

John P. Hamill, the president of the Shawmut Corporation, the bank's parent company, said: "We feel 'we've done what needs to be done. We've brought this to the attention of the appropriate authorities."

"It was an inadvertent error on our part," Mr. Hamill assured, adding, "We have had no indication from the Treasury or the Comptroller that they intended to take action against us." But a Government source familiar with the investigation of the Bank of Boston and other banks in Massachusetts said that the Shawmut Bank's international cash transfers had been under scrutiny for some time and that today's disclosure would not affect the inquiry. Last fall, before it

pleaded guilty, the Bank of Boston produced a series of currency reports that it had earlier failed to file.

The source, who asked not to be identified, said the Government was particularly interested in the Shawmut Bank's dealings with two of the foreign banks, the Bank of Nova Scotia and one of two Portuguese banks that has offices in the Azores.

Mr. Hamill said he would not disclose the names of any of the foreign banks involved, since they are customers of Shawmut. But he said lawyers for the Shawmut bank had met this afternoon with representatives of the United States Attorney's office in Boston, which has been conducting a grand jury investigation into the failure of local banks to comply with the currency regulations.

No Indication of Impending Action

"We have received no indication from the U.S. Attorney's Office what they may or may not do," Mr. Hamill said.

Mr. Hamill confirmed reports from Government sources that the Shawmut Bank had hired a former United States Attorney for the Southern District of New York, John Martin, to represent it in talks with the United States Attorney's office here and the Treasury Department.

Mr. Hamill said the Shawmut's problems stemmed from a failure to notice changes in the reporting regulations in 1980. "Our people were not aware of the changes in the regulation," he said.

William L. Brown, the chairman of the Bank of Boston, also attributed his bank's problems to a "systems failure" when a dozen departments of the bank failed to notice the new Federal currency rules.

Mr. Hamill said he would not comment on whether the Shawmut

Bank's case was different from the Bank of Boston's difficulties because "I don't know the facts about the Bank of Boston."

The Shawmut Bank had assets of \$6.5 billion at the end of 1984. Its name comes from the Indian word for the peninsula on which Boston is located.

Transfers in Millions

In the case of the banks in Spain and Portugal, \$78.2 million in cash was shipped to the Shawmut Bank for deposit since 1980, the bank said today. Unlike the case of the Bank of Boston, no United States currency was flown back to these European banks.

Three Canadian banks also sent Shawmut \$78.1 million in cash for deposit, with Shawmut sending \$28.6 million back to them "principally to serve the tourist demand."

In addition, Shawmut exchanged \$227,000 in coins for dollars from an Irish bank for use in making change at a duty free shop at Shannon airport. And the Shawmut Bank sent \$2 million in currency to one Swiss bank after receiving an equivalent amount by wire transfer.

The Shawmut Bank's statement did not say whether the cash involved by these transactions was in small or large bills. The President's Commission on Organized Crime, in a booklet published last fall, said transfers of large sums of currency in small bills was often a sign of money laundering by organized crime.

Regarding the companies and other clients on the exemption list, the Shawmut Bank said all 27 were old customers of the bank. Under the 1980 regulation, only legitimate retail businesses like supermarkets, which routinely deal in large volumes of cash, are permitted to be on a bank's exempt list.

Bank of  
Boston  
NYT  
3/9  
(P1/32)



THURSDAY, MARCH 23, 1985

## More Big Banks Say They Didn't Report Transfers Totaling Millions of Dollars

A WALL STREET JOURNAL News Roundup

More big banks disclosed that they failed to report to the government currency transactions as required by law.

In New York, Irving Trust Co. said it had discovered a total of \$232 million in cash transactions with 33 foreign banks since 1980 that hadn't been reported. Manufacturers Hanover Trust Co. said it didn't report 1,400 cash transactions totaling \$140 million since 1980.

This week, Chemical Bank, a unit of Chemical New York Corp., said it had failed to report \$25.9 million in cash transactions during the past five years.

A smaller institution, Bank of New York Co., said it didn't report until last month \$1.5 million in cash transactions that it made from September 1982 through October 1984.

Elsewhere, First Chicago Corp. and BankAmerica Corp. both acknowledged that there had been violations, but they declined to disclose the amounts involved.

Yesterday, a Treasury Department spokesman said that "a number of banks"

have come forward to say that they have failed to report currency transactions. The spokesman didn't identify any of those banks.

The currency-transaction law was designed to give authorities a tool to investigate cases involving drug deals, corruption and organized crime where large amounts of cash change hands.

Banks have been scrutinizing their cash-transaction reporting since First National Bank of Boston pleaded guilty last month to a felony charge of failing to report \$1.22 billion in cash transactions with European banks.

That bank also said that it handled cash for reputed leaders of organized crime in Boston without filing government reports. First National, a unit of Bank of Boston Corp., is Boston's largest bank.

New York's Irving Trust said that in some cases it had filed the wrong government form. It added that as "a major" international correspondent bank it had provided services to foreign banks, including the shipment of currency.

It said that there wasn't any indication that the failure to report properly 1,689 cash transactions helped conceal any criminal activities and that all overdue reports had now been filed with the government.

Manufacturers Hanover, a unit of Manufacturers Hanover Corp., said it told the Federal Reserve Bank of New York and the Treasury of its failure to report the transactions, discovered through an internal audit. All involved "routine business with foreign correspondent banks," mostly for currency exchange, the bank said.

Manufacturers Hanover's failure to file "comes right down to human error" at its unit handling transactions with foreign correspondent banks, a spokesman said.

"Procedures have been tightened up," he added. "We have made a good effort to

## Chemical Bank Says It Failed to Report \$25.9 Million in Cash Moves Since 1980

By DANIEL HEITZBERG

Staff Reporter of THE WALL STREET JOURNAL

NEW YORK—Chemical Bank, a unit of the nation's sixth-largest banking company, said it failed to report to the government a total of \$25.9 million in cash transactions over the past five years.

The Chemical New York Corp. unit is the latest and biggest bank to admit it violated government cash-reporting rules, which are designed to prevent money laundering. Bankers suggested that several other big New York banks have discovered cash-reporting violations but haven't disclosed them publicly.

Chemical, responding to a question from this newspaper, said it had uncovered 857 cash transactions that weren't reported to the government since federal regulations were tightened in 1980.

However, it said there isn't any evidence that the omissions "helped conceal, even inadvertently, money laundering or any other behavior in violation of U.S. laws." It said it voluntarily disclosed the

unreported transactions to the Treasury Department last week.

Banks have been scrambling to review their cash-transaction reporting since First National Bank of Boston pleaded guilty last month to a felony charge of failing to report \$1.22 billion in cash transactions with European banks. The bank also said it handled cash for reputed leaders of organized crime in Boston without filing government reports. First National, a unit of Bank of Boston Corp., is Boston's largest bank.

Earlier this month, Boston's second-largest and third-largest banks, Bank of New England and Shawmut Bank of Boston, respectively, said they had failed to report cash transactions to the government. By voluntarily reporting such transactions, some banks are eager to avoid the public-relations disaster suffered by Bank of Boston.

Since July 1972, banks have been required to report cash transactions of more than \$10,000 with individuals or companies. That law was amended in July 1980 to include cash transfers of more than \$10,000 between domestic and foreign banks.

Chemical said most of its unreported transactions, 825 totaling \$23.3 million, occurred when Chemical bought or sold foreign currency from "established" U.S. foreign-exchange brokers, mainly to supply its New York branches.

In addition, it said there were nine transactions totaling \$2 million in which currency was shipped between Chemical and two foreign banks and 22 transactions totaling \$500,000 with a U.S. foreign-exchange trading firm. Chemical declined to name the customers or other banks.

March 26, 1985

Page 1 of 2

Chemical Bank's standards of corporate citizenship call for full compliance with regulations that govern the conduct of our business, including Federal regulations that require reporting cash transactions. More than 100,000 reports covering such transactions have been filed by the Bank with Federal authorities since the Code of Federal Regulations was amended effective July 7, 1980. A recent bankwide review of procedures by Chemical revealed 857 such transactions (less than 1% of the total), amounting to \$25.9 million, had not been reported as required when the 1980 amendments became effective. On March 20, 1985, Chemical voluntarily made the appropriate filings with the Treasury Department, bringing the Bank into full compliance with the regulations.

The unreported transactions have been reviewed as to their underlying business purpose, and there is no evidence that any of the omissions helped conceal, even inadvertently, money laundering or any other behavior in violation of U.S. laws that the Bank Secrecy Act was designed to combat. Rather, the omissions arose simply from an imperfect understanding of the 1980 amendments.

Of the above 857 transactions reported March 20 totaling \$25.9 million, 825 totaling \$23.3 million occurred when Chemical bought or sold foreign currency from established domestic

March 26, 1985

Page 2 of 2

foreign exchange brokers in amounts necessary for the Bank's routine operations. Also included were nine transactions totaling \$2.0 million in which currency was shipped between Chemical and two foreign correspondent banks; 22 transactions totaling \$0.5 million with a domestic foreign exchange trading firm; and one shipment of Canadian coins totaling \$46,000 from Chemical to a Canadian bank on behalf of the New York City Transit Authority.

An unrelated set of transactions should be mentioned in the interest of disclosure of all matters regarding foreign currency. Chemical Bank's International Private Banking Division filed the Treasury Department's Form 4789, as required, to report currency brought to this country from abroad. As a consequence of the reports filed by Chemical, the U.S. Customs authorities recently obtained warrants to freeze the accounts into which a non-U.S. citizen made deposits.

# # #

Kenneth B. Herz  
Assistant Vice President

**CHEMICAL BANK**  
277 Park Avenue, New York, NY 10172  
Tel: (212) 310-7436



MANUFACTURERS HANOVER TRUST COMPANY

270 PARK AVENUE, NEW YORK, N.Y.

MAILING ADDRESS:  
MANUFACTURERS HANOVER TRUST COMPANY  
GRAND CENTRAL STATION  
P O BOX 3708  
NEW YORK, N.Y. 10163

April 1, 1985

House Banking Committee  
Room B-303 Rayburn  
Washington, DC 20515

Dear

In response to your request, following is the statement on currency transaction reporting requirements, issued to the press on Wednesday, March 27, 1985:

"Manufacturers Hanover has conducted an internal audit to verify its continued compliance with currency transaction reporting requirements. The audit determined that since 1980 the Bank filed more than 120,000 reports of such transactions and that in only about 1,400 instances over the entire period had no filings been made. Once that oversight had been determined, the appropriate filings were made immediately.

"Both the Federal Reserve Bank of New York and the Treasury Department have been informed of this filing oversight.

"All of the transactions involving the late filings covered routine business with foreign correspondent banks, virtually all incoming cash deposits from banks, generally in major overseas tourist areas. A total of \$140 million was involved in the late filings over the four and a half year period.

"The internal audit found no evidence of money laundering activities and no irregularities relating to the bank's exempt list."

Best regards,

John H. Meyers  
Assistant Vice President  
Corporate Communications



# News Release

Irving Trust Company  
One Wall Street  
New York, NY 10015

Contact:

David E. Santos 212/487-3228



**Irving Trust**

Irving Trust Confirms  
Currency Report Filings

FOR IMMEDIATE RELEASE

NEW YORK, March 27, 1985 — Irving Trust Company said today that early in March it filed with the Internal Revenue Service overdue reports on international cash shipments to and from foreign banks. The bank said that a misinterpretation as to the correct form for reporting international cash shipments resulted in not filing required reports on such shipments since July 1980.

Irving Trust said that the overdue reports were identified during an internal review following recent media coverage about currency reporting. The bank acted immediately to file all overdue reports.

The bank said that 1,659 currency transaction reports involving 38 foreign banks were overdue during the period, amounting to \$292 million. Regular internal and external audits and reviews and examination by regulatory authorities failed to uncover the overdue reports.

(more)

March 27, 1985  
Page 2

Commenting on the situation, the bank said that it has been filing all required reports on domestic cash transactions since 1970 on Department of Treasury form 4789 (Currency Transaction Report). When international bank cash shipments first became subject to reporting requirements in July 1980, the bank's internal operating procedures were revised to take account of the 1980 changes. However, the bank improperly continued to view Treasury form 4790 (International Transportation of Currency or Monetary Instrument Report) as the only report form applicable to international shipments. This was instead of the correct form 4789, which had been used solely for reporting domestic cash transactions through the branches.

Accordingly, the bank began reporting foreign cash shipments in July 1980 on form 4790. After ten months of reporting these shipments on form 4790, it was determined that shipments made through the U.S. Postal Service or common carriers were exempt from reporting on form 4790. Since all of Irving Trust's foreign bank to bank currency transactions are handled by registered mail or common carrier, the bank discontinued filing form 4790, but continued to maintain internal records of all transactions. The bank did not, however, file form 4789, as it obviously should have done.

As a major international correspondent bank, Irving Trust provides a wide range of services for foreign banks that include the shipment of U.S. currency to and from foreign banks. The bank said there is no indication that the reporting omissions helped conceal, in any way, criminal activities.

\* \* \*



One First National Plaza  
Chicago, Illinois 60670  
Telephone: (312) 732-4000

April 1, 1985

House Banking Committee  
Room B303 Rayburn  
Washington, DC 20515

Dear

The First National Bank of Chicago has issued the following statement to members of the press who have inquired about our efforts to determine if any "money laundering" had occurred at the bank:

"We have concluded our investigation and we are certain there is no evidence of any laundering or anything approaching it. We did uncover a few cases involving important and well established corporate customers where we did not file the appropriate forms. We have taken the necessary steps to rectify that situation."

Please let me know if I can be of further assistance.

Sincerely,

William W. Baldwin  
Manager, Press Relations

WWB:ea

0308z

April 1, 1985

WELLS FARGO STATEMENT ON CTR VIOLATION:

Wells Fargo has conducted an internal review of our policies and procedures for filing large currency transaction reports and we are satisfied that we have proper procedures in place to insure full compliance with these reporting requirements. However, in the course of our review, we discovered 30 shipments of cash to Wells Fargo Bank from two overseas banks from 1980-84, which were not reported through oversight as required. These transactions amounted to \$2.7 million. We have notified the national bank examiners and the Treasury Department and are in the process of filing all reports.

With respect to certain other transactions, which we believe were properly reported, we are discussing with the Treasury whether a second form should also have been filed. All of these transactions were with foreign correspondent banks and there is no evidence of money laundering.



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

DEPUTY ASSISTANT SECRETARY

JUL -7 1982

Dear Mr. Gridley:

Thank you for the assistance provided my staff recently at the Federal Reserve Bank of Boston. The diligent efforts of Assistant National Bank Examiners Thomas E. Rollo and Peter Fong contributed materially to the successful analysis of thousands of currency receipt and shipment vouchers in a relatively short period of time. I would like to commend Mr. Rollo and Mr. Fong and thank them for their help.

Sincerely,

(Sincerely)

Robert E. Powis  
Deputy Assistant Secretary  
(Enforcement)

Mr. Ralph Gridley  
Regional Administrator for  
National Banks  
470 Atlantic Avenue  
Harbor Plaza - 8th Floor  
Boston, Massachusetts 02110

cc: Mr. James Tracey ~~←~~  
Comptroller of the Currency  
Washington, D.C.





## MEMORANDUM

Comptroller of the Currency  
Administrator of National Banks

Washington, D.C. 20219

To: Robert B. Serino, Director, Enforcement & Compliance Division

From: Richard M. Alexander, Attorney, Enforcement & Compliance Division

Date: January 20, 1983

Subject: 31 C.F.R. 103 et. seq.

I spoke with Barry Lewis, Special Agent, IRS Criminal Investigation Division (633-1003) in order to arrange a meeting between this Office and representatives of the IRS and the United States Attorney's Office to discuss the use of OCC personnel in IRS investigations. The meeting has been scheduled for Monday, January 31, at 1:30.

During our conversation, I reiterated this Office's willingness to cooperate with the various law enforcement agencies and to provide assistance wherever possible. I also mentioned our continuing interest in any information which can legally be provided to us and which might be of concern to the OCC as the regulator of national banks. In this regard, Lewis mentioned that a grand jury is currently investigating 31 C.F.R. compliance at several ~~banks~~ banks. In particular, the IRS has been investigating the frequency of the filing of currency transaction reports at these banks. Their preliminary investigation has disclosed:

- 1) two banks where no CTR's have been filed since 1976;
- 2) one bank where one CTR has been filed since 1976; and
- 3) several banks where less than ten filings have been made since 1976.

If I receive any further information, I will let you know.

cc: Jim Tracy  
RMA Chron

1. Sent to [illegible]  
2. Put in [illegible] 1983



# MEMORANDUM

Comptroller of the Currency  
Administrator of National Banks

Washington, D. C. 20219

Robert B. Serino, Director, Enforcement & Compliance Division

Richard M. Alexander, Attorney, Enforcement & Compliance Division

February 2, 1983

Interagency Cooperation

On January 31, 1983, I met with Barry Lewis, (IRS Criminal Division), Carroll Hawkins and Bill Morban (both from Customs-Office of Investigations) to discuss the use of OCC personnel in 31 CFR 103 investigations. Also present was Julie Linville from Commercial Examinations.

A grand jury is currently investigating violations of 31 CFR §103 in the [redacted] area. Apparently several national banks have been targeted, including the [redacted]. The investigators are particularly interested in getting an examiner assigned as an agent of the grand jury. I explained to them all of the procedures that must be followed to get authorization and also went through the parameters of examiner assistance as outlined in your letter to Jorge Rios. A request for such an examiner will probably be made, through Treasury, in the near future.

In addition, I gave the investigators a brief description of the other resources of the Office which might be of use to them and the procedures established to obtain such assistance. I also spoke of our continuing interest in any and all information which would assist us in our supervision of national banks. The investigators seemed extremely appreciative of our assistance and appear ready and willing to work with us in the future.

cc: RMA Chron



# MEMORANDUM

Comptroller of the Currency  
Administrator of National Banks

Washington, D. C. 20219

To

File

From

William A. Ryback, Director, International Banking Activity

Date

June 16, 1983

Subject

Request for Assistance from Department of Treasury on  
Investigation of Bank of Boston International

Mr. Robert Stankey, Department of the Treasury requested OCC's assistance in reviewing bank transactions at Bank of Boston International, New York City. Bank of Boston International is a banking Edge Corporation of First National Bank of Boston.

The Edge Corporation is under scrutiny caused by transferring funds from Panama which may in fact be potential violations of the Bank Secrecy Act. The Senate Permanent Subcommittee on Investigations has subpoenaed the records of Bank of Boston. The examiners were to assist Treasury and Subcommittee staff members in interpreting bank records and documents. The investigation was to be conducted on site in the Edge in New York.

I informed Mr. Stankey that this Office would not participate in such an exercise given the existing ground rules. We prefer not to be part of a team investigating suspected criminal activities. The Edge Corporation, technically comes under the supervision of the Federal Reserve Bank of New York rather than the Comptroller of the Currency. I informed Mr. Stankey that after their initial review and investigation, we may be willing to provide professional assistance to review any questionable documents at a location other than the physical facilities of Bank of Boston.

Mr. Stankey thanked us for our consideration of the matter.



Comptroller of the Currency  
Administrator of National Banks

Date

~~6/1~~ 6/1

Bill Ryback

Pls handle. Let's  
do what Serino suggests  
unless there's a problem.

Coordinate w/ Gridley &  
Serino on who should  
do what. Thanks

hr

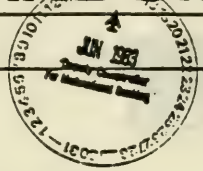
Michael Patriarca  
Executive Assistant  
to the Comptroller  
(202) 447-0154



# MEMORANDUM

Comptroller of the Currency  
Administrator of National Banks

Washington, D. C. 20219



*Lyback*

To: Michael Patriarca, Deputy Comptroller  
for Multinational Banking

From: Robert B. Serino, Director *RS*  
Enforcement and Compliance Division

Date: June 14, 1983

Subject: Bank of Boston, International

In subsequent discussions with Robert Stankey of the Treasury Department concerning the Treasury Department's request for use of an examiner in its joint investigation with the Senate Permanent Subcommittee on Investigations of large sums of funds coming in from Panama, it became apparent that Mr. Stankey wanted our examiner to physically enter the Edge Act and review records on premise. I indicated that while we would like to assist his office in its investigation, I did not believe that it was appropriate for our examiners to review the records of the Edge in light of the fact that the Fed had primary jurisdiction over that entity. I indicated that in instances where our examiners are agents of grand juries, unless an extraordinary circumstance arises, it has been our practice to allow them to be used only in national banks. Mr. Stankey indicated that the subpoena was that of the Senate Subcommittee and not that of a grand jury. I indicated that our participation with the Senate staff would give me more pause than assisting a grand jury as an agent.

I concluded my discussion with Mr. Stankey by indicating that he should seek assistance from the Fed as it was the principal regulator over the Edge, and that we would be willing, as previously indicated, to review files obtained from the Edge outside of the institution. Mr. Stankey indicated that if he needed our assistance he would contact me.

cc: BWSmith





# MEMORANDUM

Comptroller of the Currency  
Administrator of National Banks

Washington, D. C. 20219

To: Michael Patriarca, Deputy Comptroller  
for Multinational Banking

From: Robert B. Serino, Director *[Signature]*  
Enforcement and Compliance Division

Date: May 31, 1983

Subject: Bank of Boston, International

On May 26, 1983, I received a telephone call from Robert Stankey of the Department of Treasury, requesting our assistance to review certain transactions for potential violations of the Bank Secrecy Act. He indicated that the Treasury Department is working with Permanent Subcommittee on Investigations of the U.S. Senate to review certain transactions of large sums of currency being imported into the United States from Panama. He indicated that over the past year, over \$1 billion in currency, usually in \$20 bills, was transferred on behalf of the Panamanian Government to the Federal Reserve Bank in New York for transfer to the Bank of Boston, International (First of Boston's Edge).

The Treasury Department and the Subcommittee are interested in determining whether potential violations of the Bank Secrecy Act have occurred in light of the transfer of these large sums of money. The Subcommittee apparently has subpoenaed the records from the Bank of Boston and is presently preparing to review the records together with a representative from the Treasury Department. Mr. Stankey has requested that an examiner experienced in international examinations be assigned to assist the Treasury Department in reviewing the records.

I suggest that we initially make available to the Treasury Department Steve Connors (the examiner in Boston who conducted the last international examination of the Bank) in order that he can assess the nature of the review and determine who should be assigned to assist in this investigation.

cc: Boston Office  
Connors

*566-8024*

## PERISCOPE

### How Many SS-20s Does Moscow Have?

Capitol Hill and U.S. intelligence sources charge that the Soviet Union has 50 percent more nuclear warheads aimed at Western Europe than the number commonly accepted. The Soviets are known to have deployed two SS-20s, both armed with three warheads, at each of 240 launch sites in the European part of the U.S.S.R. But according to several official Washington sources, intelligence photos and other evidence suggest that there is a third three-warhead missile hidden in the vicinity of each launch site. These sources also say that some of the hidden missiles were in place or as long as three years before they were discovered, raising various questions about U.S. ability to verify Soviet claims.

### Odds On for a Reagan Rerun

What are the odds that President Reagan will decide to run for a second term? One senior White House aide puts them at 90-10 in favor of a re-election bid. And while the improving economy may be Reagan's most potent campaign weapon, this aide views it as the one thing that might persuade him not to make the race. Reagan asks longingly of returning to his California ranch, the aide says, once the economy is on the mend and he can leave with a sense of having accomplished his mission. Other staff members are concerned that the president's recently improved poll numbers have created a false air of invincibility around the White House. One cautious adviser points out that support for Reagan is "all very squeamish" with significant soft spots like truckers and steelworkers, who have suffered the negative effects of Reaganomics.

### Soviet Contributions to Peace

The Soviet Union is surreptitiously pumping \$30 million annually into the West German peace movement, including the Green Party, which holds 27 seats in Parliament, according to a secret investigation by the Bundesnachrichtendienst, West Germany's equivalent of the Central Intelligence Agency. The funds are channeled into the country through front groups and used mostly to buy routine supplies such as megaphones, posters and office equipment. The findings of the investigation have not been released, possibly because Chancellor Helmut Kohl wants to avoid a controversy before his July visit to Moscow.

### A Three-Way Arms Deal

The next shipment of U.S. arms to Taiwan may come from Israel. Taiwan wants to buy additional American-made M48 tanks, the mainstay of the Taiwanese Army. Even though the tanks are an outdated model, a direct sale would anger Peking, which frowns on any U.S. aid for the Nationalist regime in Taipei. But ignoring the request would anger President Reagan's right-wing supporters. One alternative that the Reagan administration has begun to explore is having Israel sell some of its M48s to Taiwan. Preliminary indications are that the Begin administration would be willing to cooperate.

### The Governors' Gripe With the White House

The scandals at the Environmental Protection Agency have led to unexpected side effect: strained relations between the White House and the nation's governors. Governors from both parties wanted James Madas, the second-ranking White House

aide for liaison with state and local governments, to be promoted to the top job. Madas was in line for the post until he came under scrutiny during a congressional hearing because of a meeting he held with former EPA Assistant Administrator Rita Levell, who is under investigation for political use of EPA funds. Although Madas is not suspected of any wrongdoing, simply being mentioned in the hearing made him too controversial for promotion. The governors now fear that Madas will resign rather than continue in the No. 2 job.

### The Wrong Woman for the Job

President Reagan recruited former ambassador to Switzerland Faith Whittlesey to be his ambassador to women, but she has been anything but diplomatic in the job. Since becoming assistant to the president for public liaison in March, Whittlesey has alienated feminists with her opposition to the Equal Rights Amendment and her tepid support of such administration initiatives as equalizing pension benefits for men and women. In a political-strategy session with the president last week, Whittlesey stunned her male colleagues with the assertion that the "gender gap"—the disproportionate displeasure with Reagan among female voters—is overrated. White House planners who believe otherwise have vowed to limit Whittlesey's role in policy decisions on that sensitive issue during the campaign. A new working group on the women's vote has already been formed, with deputy chief of staff Michael Deaver in charge.

### A Trade Dispute Within the Administration

The Reagan administration is involved in another dispute over trading with communist countries—but unlike last year's squabble over the Soviet natural-gas pipeline, this problem is strictly internal. Officials of the U.S. Commerce Department have been trying for more than a year to persuade the Defense Department to drop the licensing rules Communist bloc countries must follow to buy American-made items such as personal pocket computers, electrocardiograph machines and digital thermometers. Although all the products contain sophisticated electronic chips, the Soviet Union and its allies can purchase similar goods from other countries with little trouble. In addition, Commerce has asked Defense to abolish licensing requirements for such nonstrategic materials as baby formula, disposable diapers, pasties, menages and commercial refrigerators. But the Defense Department refuses. A senior Commerce Department official attributes the problem to institutional differences. "They just won't desecrate. It's mindless."

### Panama's Alarming Cash Flow

Senate investigators have discovered that in recent months Panama's central bank has shipped hundreds of millions of dollars in U.S. currency to the Federal Reserve Bank of New York. William Roth, chairman of the Senate Permanent Subcommittee on Investigations, has launched an inquiry to determine who is moving the money and why. One strong possibility is that Panama has become a new stop on the laundry route for South American drug-trade profits. Roth will hold hearings on the results of the probe later this summer. He is also preparing legislation designed to help U.S. enforcement agencies penetrate the secrecy of Caribbean and South American banks used by drug dealers and white-collar criminals to mask their financial transactions.

ERIC GELMAN with bureau reports



## DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

DEPUTY ASSISTANT SECRETARY

SEP 21 1982

MEMORANDUM FOR: Karen J. Wilson  
Chief National Bank Examiner  
Comptroller of the Currency

FROM: Robert E. Powis /i/ R.E.P.  
Deputy Assistant Secretary  
(Enforcement)

SUBJECT: Compliance of Banks in Massachusetts  
with the Reporting Requirements of the  
Bank Secrecy Act

Recently, with the cooperation of James Tracey and your regional office in Boston, we conducted a review of compliance by Massachusetts banks with currency transactions reporting requirements. The review covered a four-month period from January through April, 1982 and included:

- (1) a review of customer exemption lists of all Massachusetts banks;
- (2) a survey of currency activity (deposits and shipments) of member banks with the Federal Reserve Bank of Boston; and
- (3) a comparison of currency activity of member banks with Currency Transaction Reports (IRS Forms 4789) filed with IRS during the period.

Our review indicates that compliance with the reporting requirements of the Bank Secrecy Act by banks in Massachusetts is very low. The number and dollar amount of Currency Transaction Reports filed by banks in Massachusetts during the four-month period reviewed is not consistent with the large volume of currency involved in the transactions between member banks and the Federal Reserve Bank during the same period. Moreover, each exemption list received from the banks required additional contact to perfect the information reported or to require removal from the lists of non-qualifying bank customers. This indicates a notable lack of understanding of the exemption provisions in the regulations.

The attached schedule lists the banks under your supervision that conducted substantial currency transactions with the Federal Reserve Bank of Boston during the period covered by the review. The schedule also provides data on the number and dollar volume of Currency Transaction Reports filed by each bank during the same period. Also attached is a U.S. Customs Service report of all Currency Transaction Reports filed by Massachusetts financial institutions during the review period.

All of the data indicates that a special compliance enforcement effort will be required, especially by the Federal agencies that supervise commercial banks, to raise the compliance level. I would appreciate your assistance in bringing this problem to the attention of the appropriate field officials who have direct responsibility for the examination of the banks in Massachusetts. We will, of course, be pleased to help you or your field personnel in any way we are able to.

I understand that an examination of the First National Bank of Boston is currently underway. Our review indicates that the First National Bank of Boston, which appears to purchase the largest amounts of currency from the Federal Reserve Bank of Boston (\$926 million during the period January-April, 1982), has a very low level of compliance with the Bank Secrecy Act. The officer in charge of currency operations at that bank, in contacts with my office regarding exemption lists, has informed us that he is not completely familiar with the provisions of the Bank Secrecy Act regulations. Consequently, I would appreciate receiving a special feedback report on the 31 CFR Part 103 compliance examination of the First National Bank of Boston. We are especially interested in the trans-shipments of currency by the bank to correspondent banks and internationally. The information concerning correspondent activity is needed to assess the compliance of the correspondent banks that do not deal with the Federal Reserve Bank.

If you have any questions regarding the attachments or our request for special assistance in Massachusetts, please call me or have a member of your staff contact Robert Stankey of this office.

Attachments

## Comptroller of the Currency

SCHEME OF CURRENCY ACTIVITY WITH FEDERAL RESERVE BANK OF BOSTON  
 COMPARED WITH CURRENCY TRANSACTION REPORT FILINGS  
 JANUARY - JUNE, 1982

Name of Bank	ADA No.	Currency Activity at FED		Currency Transaction Reports	
		FED Shipments to Banks (in thousands)	Bank Shipments to FED (in thousands)	Forms 4789 (CTR'S) FILED	Dollar Volume (in thousands)

Shawmut Bank of Boston

Shawmut County Bank

Shawmut Community Bank





## DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

DEPUTY ASSISTANT SECRETARY

SEP 21 1982

Dear Mr. Ryan:

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Our review indicates that compliance with the reporting requirements of the Bank Secrecy Act by banks in Massachusetts is very low. The number and dollar amount of Currency Transaction Reports filed by banks in Massachusetts during the four-month period reviewed is not consistent with the large volume of currency involved in the transactions between member banks and the Federal Reserve Bank during the same period. Moreover, each exemption list received from the banks required additional contact to perfect the information reported or to require removal from the lists of non-qualifying bank customers. This indicates a notable lack of understanding of the exemption provisions in the regulations.

The enclosed schedule lists the banks under your supervision that conducted substantial currency transactions with the Federal Reserve Bank of Boston during the period covered by the review. The schedule also provides data on the number and dollar volume of Currency Transaction Reports filed by each bank during the same period. Also enclosed is a U.S. Customs Service report of all Currency Transaction Reports filed by Massachusetts financial institutions during the review period.

All of the data indicates that a special compliance enforcement effort will be required, especially by the Federal agencies that supervise commercial banks, to raise the compliance level. I would appreciate your assistance in bringing this problem to the attention of the appropriate field officials who have direct responsibility for the examination of the banks in Massachusetts. We will, of course, be pleased to help you or your field personnel in any way we are able to.

If you have any questions regarding the enclosures or our request for special assistance in Massachusetts, please call me or have a member of your staff contact Robert Stankey of this office.

Sincerely,

(Signed)  
Robert E. Powis  
Deputy Assistant Secretary  
(Enforcement)

Mr. John E. Ryan, Director  
Division of Banking Supervision  
& Regulation  
Board of Governors of the  
Federal Reserve System  
20th & Constitution Avenue, N.W.  
Washington, D.C. 20551

**SCHEDULE OF CURRENCY ACTIVITY WITH FEDERAL RESERVE BANK OF BOSTON  
COMPARED WITH CURRENCY TRANSACTION REPORT FILINGS  
JANUARY - JUNE, 1982**

<u>Name of Bank</u>	<u>ADA No.</u>	<u>Currency Activity at FED</u>		<u>Currency Transaction Reports</u>	
		<u>FED Shipments to Banks</u> <u>(In Thousands)</u>	<u>Bank Shipments to FED</u> <u>(In Thousands)</u>	<u>Forms 4789 (CTR'S)</u> <u>FILED</u>	<u>Dollar Volume</u> <u>(In Thousands)</u>

**Shawmut First Bank & Trust Company**



TO: E. I.  
2/19/85

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

SEP 21 1982

DEPUTY ASSISTANT SECRETARY

100-3454  
100-3454

BK ✓ 201-J-2  
JN ✓  
JF ✓

Copies to  
Serino  
Martin  
Gidley

**MEMORANDUM FOR:** Karen J. Wilson  
Chief National Bank Examiner  
Comptroller of the Currency

**FROM:** Robert E. Powell *RE*  
Deputy Assistant Secretary  
(Enforcement)

**SUBJECT:** Compliance of Banks in Massachusetts  
with the Reporting Requirements of the  
Bank Secrecy Act

Recently, with the cooperation of James Tracey and your regional office in Boston, we conducted a review of compliance by Massachusetts banks with currency transactions reporting requirements. The review covered a four-month period from January through April, 1982 and included:

- (1) a review of customer exemption lists of all Massachusetts banks;
- (2) a survey of currency activity (deposits and shipments) of member banks with the Federal Reserve Bank of Boston; and
- (3) a comparison of currency activity of member banks with Currency Transaction Reports (IRS Forms 4789) filed with IRS during the period.

Our review indicates that compliance with the reporting requirements of the Bank Secrecy Act by banks in Massachusetts is very low. The number and dollar amount of Currency Transaction Reports filed by banks in Massachusetts during the four-month period reviewed is not consistent with the large volume of currency involved in the transactions between member banks and the Federal Reserve Bank during the same period. Moreover, each exemption list received from the banks required additional contact to perfect the information reported or to require removal from the lists of non-qualifying bank customers. This indicates a notable lack of understanding of the exemption provisions in the regulations.

This correspondence was found in the correspondence file from the  
12-31-73 Exam.

The attached schedule lists the banks under your supervision that conducted substantial currency transactions with the Federal Reserve Bank of Boston during the period covered by the review. The schedule also provides data on the number and dollar volume of Currency Transaction Reports filed by each bank during the same period. Also attached is a U.S. Customs Service report of all Currency Transaction Reports filed by Massachusetts financial institutions during the review period.

All of the data indicates that a special compliance enforcement effort will be required, especially by the Federal agencies that supervise commercial banks, to raise the compliance level. I would appreciate your assistance in bringing this problem to the attention of the appropriate field officials who have direct responsibility for the examination of the banks in Massachusetts. We will, of course, be pleased to help you or your field personnel in any way we are able to.

I understand that an examination of the First National Bank of Boston is currently underway. Our review indicates that the First National Bank of Boston, which appears to purchase the largest amounts of currency from the Federal Reserve Bank of Boston (\$926 million during the period January-April, 1982), has a very low level of compliance with the Bank Secrecy Act. The officer in charge of currency operations at that bank, in contacts with my office regarding exemption lists, has informed us that he is not completely familiar with the provisions of the Bank Secrecy Act regulations. Consequently, I would appreciate receiving a special feedback report on the 31 CFR Part 103 compliance examination of the First National Bank of Boston. We are especially interested in the trans-shipments of currency by the bank to correspondent banks and internationally. The information concerning correspondent activity is needed to assess the compliance of the correspondent banks that do not deal with the Federal Reserve Bank. *info is this?*

If you have any questions regarding the attachments or our request for special assistance in Massachusetts, please call me or have a member of your staff contact Robert Stankey of this office.

Attachments





Shawmut

Memo #84-033

EXHIBIT 47

## MEMORANDUM

TO: BRANCH MANAGERS

September 13, 1984

FROM: Robert P. Monaco

SUBJECT: CURRENCY TRANSACTIONS EXCEEDING \$10,000

The attached Globe article regarding Rockland Trust Company's failing to report currency transactions exceeding \$10,000 should be of interest to all branch personnel. It indicates how important compliance with Financial Recordkeeping and Reporting Regulations by banks is.

Your exempt list should be reviewed periodically and updated both in the branch and in Metro Division Operations. Any changes to your list should be sent to Helen Terzides Copley 9912.

Keep in mind that a 4789 Currency Transaction Report should be completed if a customer on your exempt list exceeds the dollar limit you have listed, and also if you are aware of a customer making multiple deposits exceeding \$10,000 during the same day.

RPM/hm

Attachment

0323H



Shawmut Bank

10

DATE REC'D	9/2/84
REC'D BY	PHM
REF'D TO	
DATE ANS	
O.K. TO FILE	

MEMORANDUM

TO: Attached List\*

September 20, 84

FROM: C. Keefe Hurley, Jr., Senior Vice President & General Counsel  
 Elizabeth D. Reefer, Attorney, Legal Department

SUBJECT: Compliance with the Bank Secrecy Act (31. U.S.C. 5311)

As some of you are no doubt aware, a bank in Massachusetts was recently fined for failure to comply with the requirements of the Bank Secrecy Act. While we are confident that our compliance is at an acceptable level, it seemed to be an appropriate time to re-examine the Act and to take steps to improve our procedures where necessary. To this end, we are enclosing an edited and updated version of the "Operational Guidelines for Compliance under the Bank Secrecy Act" originally issued by the American Bankers Association. We have made changes where appropriate to reflect current law and regulations.

Please review these guidelines carefully. The requirements of the Act reach many areas of the Corporation and you should evaluate whether or not your area of responsibility may be affected. It should be noted, for example, that the requirements include the reporting of certain loan payments and account relationships in foreign countries.

If you have any questions with respect to the Act, please contact Elizabeth Reefer at 292-3607. After you have had an opportunity to review and evaluate the enclosed material, please respond in writing to the undersigned on your evaluation and any steps which will be taken to improve your compliance. Your responses will be used as the basis for a report to senior management and General Auditing. We would appreciate your written responses by October 3, 1984.

*We conform  
 Paul D. Miller  
 9/28/84*

*C. Keefe Hurley Jr.*

*Elizabeth D. Reefer*

CKH/EDR/bjs  
 Enclosures

## List:

John P. LaWare, Chairman of the Board  
 and Chief Executive Officer  
 John P. Hamill, President  
 William F. Craig, Vice Chairman  
 Neal F. Finnegan, Vice Chairman  
 Paul A. Miller, Executive Vice President  
 and Treasurer  
 William C. Schrader, Executive Vice President,  
 Information Systems and Bank Operations  
 John J. Green, Executive Vice President, Credit  
 Timothy J. Hansberry, Executive Vice President,  
 Metropolitan and Southeast Zones Head  
 Horace C. Sylvester, Jr., Executive Vice President,  
 Capital Markets  
 Gene Drolet, Northeast Zone Head  
 John D. Hunt, Central Zone Head  
 F. William Marshall, Central Zone Head and  
 President, Shawmut Worcester County Bank, N.A.  
 Leonard A. Wilson, Western Zone Head and  
 President, Shawmut First Bank and Trust Company  
 James B. Barron, President, Shawmut Bank of  
 Bristol County, N.A.  
 W. John Hinman, President, Shawmut Bank of Cape Cod, N.A.  
 Christopher W. Bramley, President, Shawmut Community  
 Bank, N.A.  
 Brian A. Elsdon, President, Shawmut County Bank, N.A.  
 Ronald W. Mallette, President, Shawmut First County  
 Bank, N.A.  
 Arnold G. Blackstone, President, Shawmut Bank of Franklin  
 County, N.A.  
 Thomas G. Sebastyn, President, Shawmut Bank of Hampshire  
 County, N.A.  
 Philip H. McLaughlin, President, Shawmut Merchants Bank,  
 N.A.  
 Ronald E. Lestan, President, Shawmut Needham Bank, N.A.  
 Warren S. Bery, Senior Vice President  
 Eric D. Bradlee, Senior Vice President  
 Charles M. Bush, Senior Vice President  
 David W. Dailey, Senior Vice President  
 William J. Deane, Jr., Senior Vice President  
 P. Clarke Dwyer, Senior Vice President  
 John G. Fallon, Vice President  
 John J. Gould, Senior Vice President  
 John H. Kalchbrenner, Senior Vice President

## List Continued:

Frederick J. Knapp, Senior Vice President  
 Leo F. Swift, Senior Vice President  
 John J. LaCreta, Senior Vice President  
 Anne Moe, Senior Vice President  
 William S. McLaughlin, Senior Vice President  
 (President, Shawmut Credit Corp.)  
 Charles V. Rossi, Vice President  
 (President, Shawmut Securities Clearance Corp.)  
 Robert R. Perkins, Vice President  
 Charles H. Eppinger, Senior Vice President  
 Richard A. Williams, Senior Vice President  
 Francis T. Murphy, Senior Vice President  
 Thomas B. Brown, Senior Vice President  
 (President, One Federal Asset Management, Inc.)  
 Alfred S. Dominick, Jr., Senior Vice President  
 J. Peter Niosi, Senior Vice President  
 Peter J. Regan, Senior Vice President  
 John C. Warren, Senior Vice President  
 Charles P. Harmon, President, American AgCredit Corporation  
 John Harvey, Vice President, Shawmut Boston International  
 Banking Corporation  
 Brian Weatherlake, General Manager, Atlantic International  
 Bank Limited  
 William M. Scripture, Managing Director, Atlantic Capital  
 Limited  
 Raymond V. Coppens, Jr., Assistant Vice President  
 Nancy T. Dodds, Assistant Vice President

cc: Paul J. MacKinnon

EIC-Gowmini:R

Nov-30-84

601-D-4-a

Bank Secrecy Act:

Operational Guidelines for Compliance  
by Commercial Banks with the Treasury Regulations on  
Financial Recordkeeping and Reporting of Currency  
and Foreign Transactions

Issued By: American Bankers Association  
 Updated to September 20, 1984  
 By: Elizabeth D. Reefer  
 Attorney  
Legal Department

- This internal communication was distributed to:  
 the Audit Dept. and Metro. Division
- Metro. distributed to all Marketing Managers  
 and Branch Managers -
- Branch managers were instructed to update their staffs.

NJM.

W/P PREPARED BY: Bank/gam  
 W/P CHECKED BY: SR  
 W/P REV. CAE  
 W/P INDEX NO. CAE-20



## OPERATIONAL GUIDELINES

## OBJECTIVES

The regulations have two objectives:

- ☐ To require the maintenance and preservation of records of financial transactions for possible use in criminal, tax, or regulatory proceedings. (31 C.F.R. 103.31, hereafter cited by section number only)
- ☐ To identify those who attempt to further their illegal activities by conducting their transactions in currency, by using foreign financial facilities, or by the international transportation of currency or bearer instruments. (103-21)

It should be pointed out that 31 U.S.C. 5311 et seq. which these regulations are implementing, makes it clear that any information in a bank's reports required by the Secretary of the Treasury or other law enforcement agency may be made available to any other department or agency of the United States upon the written request of that agency. Such information will be treated as confidential and will only be disclosed for official purposes relating to an investigation. Such information will not automatically be made available for law enforcement purposes, but can only be obtained through existing legal process. (103.43, 31 U.S.C. 5319)

## DEPOSIT ACCOUNT RECORDS

## 1. Taxpayer Identification Numbers

*Let's change  
Spent Unit  
on*

All banks must secure either a social security number or an employer identification number (collectively called Taxpayer Identification Numbers) within 45 days after the opening of the account (subject to extension where the customer has applied for the number). Banks must also maintain a record of the Taxpayer Identification Number of all savings and demand deposit accounts opened or reopened after June 30, 1972, and upon the automatic extension of certificates of deposit. (103.34) In determining the proper identification number to be used for accounts, the following guidelines should be followed:

## FOR THIS TYPE OF ACCOUNT

OBTAIN SOCIAL SECURITY NUMBER OR  
EMPLOYER IDENTIFICATION NUMBER OF:

## 1. An individual's account

The individual

W/P PREPARED BY: Bank/2227

W/P CHECKED BY: SS

DATE: *10/27/72*

- |  |   |
|--|---|
| 2. Husband and wife<br>(joint account)   | The actual owner of the account or,<br>if combined funds, either person   |
| 3. Adult and minor<br>(joint account)  | The adult, or if the minor is the<br>only contributor, the minor  |
| 4. Two or more individuals<br>(joint account)  | The actual owner of the account or,<br>if combined funds, any one of the<br>individuals   |
| 5. Account in the name or<br>guardian or committee<br>for a designated ward,<br>minor or incompetent<br>person | The ward, minor or incompetent<br>person  |
| 6. Custodian account of a<br>minor (Uniform Gift<br>to Minors Act)   | The minor   |
| 7a. The usual revocable<br>savings trust account<br>(grantor is also<br>trustee)                               | The grantor-trustee   |
| b. So-called trust account<br>that is not a legal or<br>valid trust under state<br>law                         | The actual owner  |
| 8. A valid trust, estate,<br>or pension trust  | Legal entity. Do not furnish the<br>identifying number of the<br>administrator, executor, or trustee<br>unless the legal entity itself is<br>not designated in the account title. |
| 9. Corporate account   | The corporation   |
| 10. Religious, charitable,<br>or educational organi-<br>zational account                                       | The organization  |
| 11. Sole proprietorship  | The owner   |
| 12. Partnership account<br>held in the name of<br>the business   | The partnership   |
| 13. Association, club, or<br>other tax-exempt<br>organization  | The organization  |
| 14. A broker or registered<br>nominee  | The broker or nominee   |

W/P PREPARED BY: Bank/Carroll  
W/P CHECKED BY: [Signature]  
W/P INDEX NO. CAE-20

A Taxpayer Identification Number need not be secured in the following instances:

- a. Accounts opened by agencies and instrumentalities of Federal, State, local or foreign governments.
- b. Accounts for judges, public officials or clerks of courts of record as custodians of funds in controversy or under the control of the court.
- c. Accounts for aliens who are:
  1. Ambassadors, ministers, career diplomatic or consular officers.
  2. Naval, military, or other attaches of foreign embassies and legations, or members of their immediate families.
  3. Accredited representatives of international organizations entitled to enjoy privileges, exemptions, and immunities as an international organization under the International Organizations Immunities Act of December 29, 1945, and their immediate families.
  4. Temporarily residing in the United States for a period not to exceed 180 days.
  5. Not engaged in a trade or business in the United States.
  6. Who are attending a recognized college or university or any training programs supervised or conducted by any agency of the Federal Government and who are not engaged in a trade or business in the United States.
- d. Accounts of unincorporated subordinate units of a tax exempt central organization which are covered by a group exemption letter.
- e. Interest-bearing accounts maintained by a person under 18 years of age opened as part of a school thrift savings program, provided the annual interest does not exceed \$10.
- f. Christmas Club, vacation club and similar installment savings programs, provided the annual interest does not exceed \$10.

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~~If a customer does not have a social security number or has lost his or her card or forgotten his or her number, he or she should contact the local office of the Social Security Administration.~~

To obtain a new employer identification number the applicant should sign an authorization stamped by the bank on the back of Part 2 of Form SS-4 (Application for Employer Identification Number) containing the following language:

Please furnish the EIN being applied for to:

NAME \_\_\_\_\_  
 ADDRESS \_\_\_\_\_  
 SIGNATURE\* \_\_\_\_\_  
 TITLE \_\_\_\_\_

\*Individual who is authorized to sign Federal tax returns.

The form should be completed in duplicate, and the bank should mail one copy to the Internal Revenue Service while retaining the other copy.

Form SS-4 may be obtained from the nearest Internal Revenue Service Center.

NOTE: Failure to secure such identification within the 45 day period will not be deemed a violation if (1) the bank has made a reasonable effort to secure such identification; and (2) the bank maintains a list containing the names, addresses, and account numbers of those customers from whom it has been unable to secure such identification, and makes that information available to the Secretary of the Treasury when directed. (103.34(a)(1))

## 2. Account Records

*508 trials in microfiche*  
An original or microfilm or other copy or reproduction of most demand deposit or savings account records must be retained for five years. Reproductions must show face and reverse of all checks except those on which the reverse is blank. (103.33, 103.36)

The specified records include:

☐ Signature authority documents. (103.34(b)(1))

W/P PREPARED BY: Bank/2001  
 W/P CHECKED BY: SN  
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- ☐ Statements, ledger cards or other records showing complete account activity. (103.34(b)(2))
- ☐ All checks, clean drafts, or money orders drawn on the bank or issued and payable by it. If there is no check or draft corresponding to a pre-authorized paper entry, it is necessary to maintain the customer's authorization to charge his account and a memorandum list of entries for 5 years. (Note: This requirement is waived for all checks drawn for \$100 or less or drawn on accounts that normally average 100 or more checks per month over the calendar year or over 100 on each occasion when issued, provided these checks fall in one or more of the following categories; payroll, dividend, employee benefit, insurance claims, medical benefit, government agency, brokers or dealers in securities, fiduciary account, pension or annuity, and checks drawn on other financial institutions. (103.34(b)(3))
- ☐ All debits in excess of \$100 except service charges or periodic charges based on previous agreements with the customer. (103.34(b)(4))
- ☐ Banks must retain for two years all records including deposit tickets needed to reconstruct a demand deposit account. (103.34(b)(10))

In addition, for certificates of deposit, a bank needs to retain the following for five years:

- ☐ A record of the name, address and taxpayer identification number, if available, of the purchaser, as well as a description of the instrument, a notation of the method of payment, and the date of the transaction. (103.34(b)(11))
- ☐ A record of the name, address and taxpayer identification number, if available, of any person presenting the certificate for payment as well as a description of the instrument and the date of the transaction. (103.34(b)(12))

*microfilm*  
Banks must also retain for a two-year period all records needed to trace a check in excess of \$100 deposited in a demand deposit account or to supply a description of a deposited check in excess of \$100. This would include originals or copies of all records prepared or received that would be needed for tracing, including proof and entry run tapes or their equivalents; however, the retention of these records is not necessary if the deposited items are microfilmed while they are still associated with the deposit ticket. (103.34(10))

W/P PREPARED BY: Bank/9000  
 W/P CHECKED BY: BA  
 W/P INDEX NO. CAF-20



~~the regulations state that the records to be retained may be those made in the ordinary course of business.~~ If no record is made in the ordinary course of business of any transaction with respect to which records are required to be retained, then such a record must be made in writing. (103.36(b))

All records required to be retained by these regulations should be filed or sorted in such a way as to be accessible within a reasonable period of time taking into consideration the nature of the record and the amount of time expired since it was made. (103.36(b))

Interpretations have been issued by the Treasury which exclude from the definition of deposit account the following categories: mortgage escrow accounts and credit card programs. (Appendix, 103.34(a) interpretation Nos. 5, 9)

### 3. Funds Transfers or Receipts

Each bank must retain for five years the original record or a copy of the following:

- ☐ Each item, including checks, drafts or transfers of credit in excess of \$10,000, remitted or transferred to a person, account or place outside the United States. (103.34(b)(5))
- ☐ Each remittance or transfer of funds, or of currency, other monetary instruments, checks, investment securities, or credit of more than \$10,000 to a person, account or place outside the United States. (103.34(b)(6))
- ☐ Each check or draft of more than \$10,000 drawn on or issued by a foreign bank which the domestic bank has paid or presented to a non-bank drawee for payment. (103.34(b)(7))
- ☐ Each item of more than \$10,000 received directly by letter, cable or other means (not through a domestic financial institution) from a bank, broker or dealer in foreign exchange outside the United States. This includes checks, drafts, or transfers of credit. (103.34(b)(8))
- ☐ Each receipt of currency, other monetary instruments, checks, or investment securities, and each transfer of funds or credit, of more than \$10,000 received on any one occasion directly or not through a domestic financial institution, from a bank, broker or dealer in foreign exchange outside the United States. (Section 103.37 provides special treatment of transactions between border state banks and certain people outside the United States.) (103.34(b)(9), 103.37)

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CAF-20

Each bank subject to the jurisdiction of the United States (except its foreign subsidiaries, if any) having a financial interest in, or signature or other authority over, a bank, securities or other financial account in a foreign country must report the relationship to the Secretary of the Treasury for each year in which the relationship exists. Banks having a financial interest in 25 or more foreign financial accounts need only note that fact on the report. Detailed information concerning each account must be provided when requested.

Records of such foreign accounts must be maintained with the following information: the name in which each account is maintained; the number or other designation on the account; the name and address of the foreign bank or other person with whom the account is maintained; the type of account; and the maximum value of each account during the reporting period. The records must be retained for five years.

#### CURRENCY TRANSACTIONS AND SHIPMENTS

##### 1. Currency Transaction Reports

*Beaten  
File w/ 225  
in Olan  
(on 4/1/77)*

Deposits, withdrawals, exchanges of currency, or transfers of currency, as well as other payments valued at more than \$10,000 in any transaction, must be reported by all financial institutions. These reports must be made to the Secretary of the Treasury on Form 4789 within 15 days of the date of the transaction. A copy of this report must be kept by the bank for five years. (103.22(a), 103.25)

Before effecting any transaction described above, a financial institution must verify and record the name and address of the individual presenting a transaction, as well as record the identity, account number, and the social security or taxpayer identification number, if any, of any person or entity for whose or which account the transaction is to be effected. Individuals who indicate that they are non-resident aliens must present either a passport, alien identification card, or other official document evidencing nationality or residence. Identification of other individuals may be verified by examination of a document normally acceptable as a means of identification when cashing checks, such as a driver's license or credit card. In each instance, the method used shall be recorded on the report. (103.26)

W/P PREPARED BY: Bent/2000

W/P CHECKED BY: SR

W/P INDEX NO. CAF-20

except as otherwise directed in writing by the Assistant Secretary of the Treasury, a bank need not file Form 4789 for transactions with an established customer who is a United States resident maintaining a deposit relationship with the bank, in amounts which the bank may reasonably conclude do not exceed amounts commensurate with the customary conduct of business, industry or profession of the customer. Examples given in the regulations include:

- Exemptions*
- (1) a depositor who operates a retail type of business in the United States. "Retail" type of business means where one is primarily engaged in providing goods to ultimate consumers and for which the business is paid in substantial portion by currency. Dealerships which provide automobiles, boats or airplanes are not included and their transactions are not exempt.
  - (2) deposits or withdrawals of currency from an existing account by a United States resident who operates a sports arena, race track, amusement park, bar, restaurant, hotel, check cashing service licensed by state or local governments, vending machine company or theater are exempt;
  - (3) deposits or withdrawals, exchanges of currency or other payments and transfers by local or state governments, or the United States or any of its agencies or instrumentalities are exempt; and
  - (4) withdrawals for payroll purposes from an existing account by an established depositor who is a United States resident and operates a firm that regularly withdraws more than \$10,000 in order to pay its employees in currency. (103.22(b)(2)(i)-(iv))

\* Reports are not required of transactions with Federal Reserve Banks or Federal Home Loan Banks, and transactions solely with or originated by domestic financial institutions or foreign banks. (103.22(b)(1))

*Central File numbered by Metro.*

A bank may apply to the Secretary of the Treasury for additional authority to grant an exemption from the reporting requirements if the bank believes circumstances warrant such an exemption. (103.22(d)) A record of each exemption and the reason therefore must be made at the time it is granted and all such exemptions must be kept in a centralized list. The record must include the names and addresses of banks involved (for the exemption for transactions between domestic banks) as well as the name, address, business, taxpayer identification number, and account number of each depositor which has engaged in

W/P PREPARED BY: Bank/8000  
 W/P CHECKED BY: SR  
 MGR: SR  
 V.P. REV: SR  
 W/P INDEX NO. CAF-20

*925 Bond*

currency transactions not reported because of an exemption. Additionally, the record should indicate whether the exemption covers withdrawals, deposits or both, as well as the dollar limit of the exception. Upon the request of the Secretary and within 30 days of the making of the request, the bank must provide a report containing the list and any other information the Secretary requires. (103.22(e), (f))

## 2. Transportation of Currency or Monetary Instruments

*4790s*

Persons who physically take or send or cause to be taken or sent more than \$5,000 in the aggregate of currency or other monetary instruments on any one occasion outside the United States must report that fact at the time. This must be done by filing Form 4790 with the Commissioner of Customs addressed as required by the instructions on the form. A transfer of funds through normal banking procedures which does not involve the physical transportation of currency or monetary instruments is not required to be reported on Form 4790. (103.23(a))

Each person who receives in the United States currency or other monetary instruments in an aggregate amount exceeding \$5,000 on any one occasion which has been sent from any place outside the United States and with respect to which no report has been made by the sender, must also make a report stating the amount, the date of receipt, the form of monetary instruments, and the person from whom received. (103.23(b))

It is not necessary to report transactions in foreign currency for non-resident customers performed through brokers outside the United States unless they involve the physical transportation of currency, bearer investment securities, or negotiable instruments in bearer form. Transfers by means of bank check, bank draft or wire transfer need not be reported. (103.25(b))

Persons receiving currency or other monetary instruments worth more than \$5,000 on any one occasion from outside the United States have 30 days in which to file Form 4790 with the customs officer in charge at any point of entry or by mail to the Commissioner of Customs addressed as indicated on the form. (103.25(c))

Reports on Form 4790 are not required by a bank, or a foreign bank, or a broker or dealer in securities, in respect to currency to other monetary instruments mailed or shipped through the Postal Service or by common carrier or with respect to normal overland shipments of currency or monetary instruments from or to an established customer in amounts which

W/P PREPARED BY: Bank/9202

W/P CHECKED BY: SR

MAN: PR

W/P REV: PR

W/P INDEX NO. CAF-20



~~Monetary instruments~~ conclude do not exceed amounts commensurate with the customary conduct of the business, industry, or profession of the customer concerned. The report is not required of a person who is not a citizen or a resident of the United States who mails or ships from abroad currency or other monetary instruments to a bank through the Postal Service or common carrier. (103.23(c))

*Monetary instruments*  
While this requirement will not ordinarily affect a bank, if it directly sends or receives currency or monetary instruments via a courier to or from a customer, a report must be filed. The regulation defines "monetary instruments" as coin, or currency of any country, travelers checks, money orders, investment securities in bearer form or otherwise in such form that title passed upon delivery, and negotiable instruments in bearer form or otherwise in such form that title passes on delivery. Monetary instruments do not include bank checks made payable to the order of a named person which have not been endorsed, or which bear restrictive endorsements. (103.11)

Both Form 4789 and 4790 may be obtained from any Internal Revenue Office, and in addition, Form 4790 may be obtained from any office of the Bureau of Customs. A copy of each report filed must be retained by the bank for five years. (103.25)

#### OTHER RECORDS TO BE MADE AND MAINTAINED

*Taxel during loan audit.*  
Banks must record and retain details of all extensions of credit for more than \$5,000, except those secured by real property. Details must include the customer's name and address, amount, nature or purpose of credit extension, and a date. Originals or copies must be retained for five years. (103.33(a))

Banks must also keep a record of each advice, request, or instruction it receives or gives to another financial institution or other person located within or without the United States regarding a transaction intended to result in a transfer outside the United States of funds, currency, other monetary instruments, checks, investment securities or credit in amounts of more than \$10,000. (103.33(b), (c))

#### BROKERS AND DEALERS IN SECURITIES

The regulations provide that brokers and dealers in securities must keep certain records and make certain reports. These requirements are almost identical to those imposed on banks. (103.35(a), (b))

W/P PREPARED BY: Bank/loan  
W/P CHECKED BY: SA  
DATE: 10/1/80  
W/P INDEX NO. CAE-20



*OCC  
Regulation*

The final portion of the regulations delegates responsibility for assuring compliance by commercial banks to the appropriate financial regulatory bodies. The Bank Secrecy Act provides a number of specific civil and criminal penalties for willful violations of the law or regulations issued thereunder. These are set out in section 103.47 through 103.49. Additionally, the Secretary of the Treasury may apply for a search warrant if he or she believes that currency or monetary instruments are in the process of transportation and with respect to which a report has not been filed or contains material omissions or misstatements. (103.46-50)

#### EXEMPTIONS

Any request for an extension of time for compliance with the regulations or other exemption from any of the provisions of such regulations should be directed to: Mr. James H. Clawson, Deputy Assistant Secretary, Department of the Treasury, Washington, D.C. 20220. (103.22(d), 103.45)

W/P PREPARED BY: Bank/8201  
 W/P CHECKED BY: SR.  
 W/P INDEX NO. CAF-20

**Shawmut**

TO: C. Keefe Hurley, Jr., Senior Vice President      October 3, 1984  
         & General Counsel  
      ✓ Elizabeth D. Reefer, Attorney, Legal Dept.

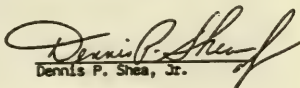
FROM: Dennis P. Shea, Jr., Vice President

SUBJECT: COMPLIANCE WITH THE BANK SECRECY ACT  
          (31. U.S.C. 5311)

Your memo of September 20 1984, with the attachment on the Bank Secrecy Act was distributed to all departments within the Bank Operations division that fell under some section of the Bank Secrecy Act.

The managers of Currency, Demand Deposit Accounting, Savings, Special Services, Reconcilements, Adjustments and Foreign Collection reviewed your memo and attachment and confirmed that they are in compliance with the Bank Secrecy Act. In addition, the Manager of Wire Transfer, Nancy Dodds, under separate cover, confirmed that her department is in compliance with the Bank Secrecy Act.

Bank Operations is in compliance with the Bank Secrecy Act.

  
Dennis P. Shea, Jr.

DPSjr:pj

cc: William J. Deane, Jr., Senior Vice President



Shawmut

## MEMORANDUM

TO: John P. Hamill, President

FROM: Elizabeth D. Reefer, Attorney

SUBJECT: Compliance with the Bank Secrecy Act (31 U.S.C. 5311)

December 12, 84

In light of the problems at [REDACTED] this fall and because of a recent legislative proposal to strengthen penalties under the Bank Secrecy Act, Paul MacKinnon suggested that the Legal Department send a copy of updated guidelines to all Senior Vice Presidents and above, all Zone Heads, all Bank Presidents, and officers at all non-banking subsidiaries. This was done on September 20, 1984 and we asked for written responses.

We have now heard from all those with direct responsibilities under the Act. It appears that the Corporation is currently in compliance. A few people had questions which went beyond the scope of the guidelines and which were answered by counsel at the U.S. Treasury Department. The Community Bank Administration - Branch Systems and Operations area has begun a project to improve compliance by: (1) communicating with branch personnel twice a year; (2) issuing periodic reports; and (3) determining if system changes are possible to identify large currency transactions after they leave the branches (currently the system cannot monitor compliance by branch personnel).

This project has heightened awareness of the Act among all divisions of Shawmut Bank of Boston and the Community Banks. Addressees and others were instructed to contact the Legal Department with any inquiries regarding the Act and its interpretation.

If there is any further information which you may need regarding this matter, please contact me at extension 3607.

*Elizabeth D. Reefer*

EDR/pm

cc: Paul MacKinnon  
(with responses)  
C. K. Hurley, Jr.



Shawmut Bank

February 19, 1985

Mr. John M. Walker, Jr.  
Assistant Secretary for  
Enforcement and Operations  
Department of the Treasury  
15th and Pennsylvania Avenue, N.W.  
Washington, D.C. 20220

Mr. Thomas W. Taylor  
Deputy Comptroller  
Office of the Comptroller of the Currency  
1211 Avenue of the Americas  
New York, New York 10036

Gentlemen:

On February 7, 1985, the General Counsel of Shawmut Bank of Boston, N.A. ("Shawmut" or the "Bank") commenced an intensive review of Shawmut's compliance with the currency transactions reporting ("CTR") regulations of the Department of the Treasury (the "Treasury"). This review was prompted by widespread publicity associated with a CTR enforcement action filed in Boston on that day. The principal focus of this review was the CTR exempt list maintained by the Bank. Prior reviews of the Bank's CTR program by the Bank's internal auditors and bank examiners had revealed no significant compliance deficiencies.

By Wednesday, February 13, 1985, the senior management of the Bank had concluded that, although the overall level of the Bank's CTR compliance was good, the Bank had inadvertently continued to retain certain customers on its CTR exempt list that, after the 1980 amendments, it was not authorized to maintain on that list without specific Treasury authorization.

Mr. John M. Walker, Jr.  
and  
Mr. Thomas W. Taylor  
February 19, 1985  
Page 2

These customers included eight foreign banks and 20 well-known local institutions, including churches, educational institutions and scheduled airlines.

At that point, senior management concluded that they should immediately contact the Regional Administrator of the Comptroller of the Currency and the Treasury to report on the situation, and so informed the Bank's Board of Directors at its regular monthly meeting on Thursday morning, February 14, 1985. As you are aware, senior management made contacts with the Comptroller and Treasury on that Thursday evening and the following Friday morning, and arranged meetings with your offices at the earliest possible date.

The report presented today is summarized in this letter and set out in detail in the attached Appendix. An important part of the report consists of the following:

(a) Form 4789s for all Shawmut currency transactions with foreign banks in excess of \$10,000 during the period from the effective date of the 1980 amendment to the CTR regulations (July 7, 1980) to the present (1052 forms) except for CTRs for deposit transactions in years 1980 and 1982 (these are to be provided by Friday, February 22, 1985); and

(b) Exemption applications to the Treasury Department to authorize the Bank to grant exemptions to the CTR requirements for specified size transactions with 20 domestic customers of the Bank eligible for such an exemption. The Bank will file Form 4789s as called for until the Department acts on these applications.

To place this report in context, it is important to recognize that Shawmut has substantially complied with the CTR requirements. From the inception of the program in 1972, the Bank took steps to set up a workable structure to perform the two principal functions which are at the heart of the CTR program: maintaining proper exempt lists and filing Form 4789s for customers not on those lists.

Shawmut maintains a centralized exempt list of customers with whom it engages in cash deposit and withdrawal transactions on a routine basis. The Bank's internal review



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and  
Mr. Thomas W. Taylor  
February 19, 1985  
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has confirmed that this list satisfies the requirements of the CTR regulations, with the exception of the presence on the list of eight foreign banks and the 20 domestic customers that the Bank in good faith believed to be properly on the list. The Bank has diligently maintained the list for its Metropolitan Division (for branch customers) from the origination of the exempt list requirement in 1980. For the Operations Division of the Bank (for foreign banks and large commercial customers), the Bank has maintained the list since the recognition by the Bank in early 1983 that such a list should be maintained for that division. *never received the currency dept. list in 1983.*

These exempt lists were routinely provided to the National Bank Examiners in their annual examinations of the Bank. No objection to these lists was raised by the Examiners. It was therefore reasonably assumed by the Bank that these lists were in proper form and in compliance with the CTR regulations, since responsibility for monitoring compliance with these regulations is specifically delegated to the Comptroller of the Currency. Moreover, there is no indication from the identity of Shawmut's customers on the exempt lists maintained, or the nature of the Bank's transactions with those customers, that any of the transactions Shawmut believed to be exempt on the lists were in amounts beyond those that the Bank could reasonably have concluded were commensurate with the customary conduct of the lawful domestic business of each customer.

The foreign banks that Shawmut treated as exempt were all long-standing customers of the Bank. The vast majority of transactions with these customers consisted of deposits. The great bulk of transfers of funds out of the Shawmut accounts maintained by these foreign banks were in the form of wire transfers to accounts of these banks at other U.S. banks. Shawmut was satisfied that any transfers of currency made by Shawmut to the foreign banks were reasonable for their stated purpose. For example, transfers of currency or coin to the Bank of Ireland and the Canadian banks were primarily for the stated purpose of providing change to tourists in those countries, with the expected increase during heavy holiday seasons.

The background for the inclusion of unauthorized customers on the Shawmut exempt lists lies in the history of how the CTR compliance requirements were integrated into the Bank's operations from the commencement of the CTR program in 1972.

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and  
Mr. Thomas W. Taylor  
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Responsibility for the Bank's branches (29 as of today) rests with its Metropolitan Division. The branches are the main point of contact with both consumers and commercial customers in the Boston area. The Operations Division deals principally with other financial institutions (such as domestic and foreign banks) and well known local institutions, including educational institutions and scheduled airlines.

In 1972, when the Bank Secrecy Act became effective, its requirements were communicated to both the City Division and the Operations Division. At that time, transactions with foreign banks were exempt, as were transactions in the "customary conduct" of a customer's business. These exemptions encompassed all customers with whom the Operations Division had currency transactions.

In 1980, the Treasury amended its CTR regulations, and in so doing, removed the general exemption for foreign bank transactions and circumscribed the domestic customer exemption. The City Division recognized the general significance of this amendment for the branches and from the outset diligently pursued branch compliance with the amended regulations through regular updating of the exempt lists and periodic reminders of the importance of full CTR compliance.

The Operations Division, however, did not immediately recognize the significance of the 1980 amendments to its operation, and circumstances were such that their full significance was not fully appreciated until the commencement of the review reported in this letter. The Currency Department of this division had operated under the 1972 regulations for an eight-year period with a relatively constant base of customers whose transactions were all exempt from reporting, and the Department did not adequately comprehend the 1980 change. Under normal circumstances, if a change in reporting requirements was not noticed by individuals with line responsibilities, it would be brought to the attention of those individuals by the office of the Bank's General Counsel. As it happened in this instance, however, the position of General Counsel had become vacant only two weeks before the issuance of the 1980 regulations and the oversight went uncorrected.

The Operations Division situation remained unchanged until 1983 when, at the direction of the Bank's internal Audit



Mr. John M. Walker, Jr.  
and  
Mr. Thomas W. Taylor  
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Department, the division was directed to forward its list of customers with specific currency transaction limits to the City Division to satisfy the requirement that all exempt lists be maintained in a central location. As indicated above, this list was provided to the National Bank Examiner in connection with the Bank's 1983 examination, and an updated list was provided to the Examiner in 1984 in each instance without adverse comment.

As shown in the Appendix to this letter, Shawmut has always regarded compliance with the CTR regulations as a serious responsibility. If you have any questions regarding this letter or the attached materials, please do not hesitate to contact me at 617-292-3350 or the Bank's General Counsel, C. K. Hurley, Jr., at 617-292-3346. It is hereby requested that this letter and its attachments be afforded confidential treatment as this information is exempt from disclosure under the Freedom of Information Act, 5 U.S.C. §§552(b)(4) and (7).

Very truly yours,

John P. Hamill  
Executive Vice President

Attachments

RETURN TO  
RECORDS SECTION

REC'D IN RECORDS SECTION

MAY 29 1981



REPORT OF EXAMINATION  
OF  
EDGE CORPORATION

Name: BANK OF BOSTON INTERNATIONAL OF MIAMI

Examination Commenced: MARCH 16, 1981

Location: MIAMI, FLORIDA

Examination Concluded: APRIL 1, 1981

Parent Institution: FIRST NATIONAL BANK OF BOSTON

BOSTON, MASSACHUSETTS

Financial Statements as of FEBRUARY 27, 1981

THIS REPORT OF EXAMINATION IS STRICTLY CONFIDENTIAL

This report of examination has been made by an examiner selected or approved by the Board of Governors of the Federal Reserve System for use in the supervision of the Edge Corporation and its subsidiaries. The information contained in the report is based upon the books and records of the Edge Corporation, upon statements made to the examiner by officers and employees, and upon information obtained from other sources believed to be reliable and presumed by the Examiner to be correct.

This copy of the report is the property of the Board of Governors and is furnished to the Corporation examined for informational use. Under no circumstances shall the Corporation or any of its directors, officers or employees disclose or make in any manner the report or any portion thereof.

It is desired that each director, in keeping with his responsibilities, thoroughly review the report. In making this review should be kept in mind that an examination is not the same as an audit, and that this should not be considered to be an audit report.

- Compliance with the provisions of measures taken to ensure that information about external crime is submitted within the Financial Recordkeeping and Reporting of Currency and Foreign Transactions Act (FRTA) and 3) preparedness under emergency conditions.

4.

- (2) No violations of the Financial Recordkeeping and Reporting of Currency and Foreign Transactions Act (Bank Secrecy Act) were disclosed during the examination. Procedures and guidelines used were those recommended by the Board on the Bank Secrecy Act. Cash transactions of more than \$10,000 were reviewed and the bank has properly filed Form 4789.

- Dual control is exercised in the reporting of aggregate transactions of \$10M or more. It is the responsibility of the teller, as well as proof department personnel, to inform the officer in charge of any such occurrence. The Corporation does not exempt any customers from this reporting requirement. Signature cards are not accepted without the proper identification.



REPORT OF  
EXAMINATION

1982



# REPORT OF EXAMINATION OF EDGE CORPORATION

Name: BANK OF BOSTON INTERNATIONAL SOUTH

Examination Commenced: AUGUST 12, 1982

Location: MIAMI, FLORIDA

Examination Concluded: SEPTEMBER 8, 1982

Parent Institution: FIRST NATIONAL BANK OF BOSTON  
BOSTON, MASSACHUSETTS

Financial Statements as of JULY 31, 1982

## THIS REPORT OF EXAMINATION IS STRICTLY CONFIDENTIAL

This report of examination has been made by an examiner selected or approved by the Board of Governors of the Federal Reserve System for use in the supervision of the Edge Corporation and its subsidiaries. The information contained in the report is based upon the books and records of the Edge Corporation, upon statements made to the examiner by officers and employees, and upon information obtained from other sources believed to be reliable and presumed by the Examiner to be correct.

This copy of the report is the property of the Board of Governors and is furnished to the Corporation examined for its confidential use. Under no circumstances shall the Corporation, any of its directors, officers or employees disclose or make in any manner the report or any portion thereof.

It is desired that each director, in keeping with his responsibilities, thoroughly review the report. In making this review, it should be kept in mind that an examination is not the same as an audit, and that this should not be considered to be an audit report.

7/31/82 *McLennan*Records, Reports, Systems and Controls

4. Comment on the adequacy of measures taken to assure 1) protection against external crime; 2) compliance with: (i) the Financial Recordkeeping and Reporting of Currency and Foreign Transactions Act (31 CFR 103); (ii) the Foreign Corrupt Practices Act; (iii) the Federal Election Campaign Act; and 3) preparedness under emergency conditions.

1. No violations of the Financial Recordkeeping and Reporting of Currency and Foreign Transaction Act (Bank Secrecy Act) were disclosed during the examination. Procedures and guidelines used were those recommended by the Board and the Bank Secrecy Act. Cash transactions of more than \$10,000 were reviewed and the bank has properly filed Form 4789.

64-3815



6801594

REPORT OF EXAMINATION  
OF  
EDGE CORPORATION

Name: BANK OF BOSTON INTERNATIONAL SOUTHExamination Commenced: OCTOBER 11, 1983Location: MIAMI, FLORIDAExamination Concluded: NOVEMBER 10, 1983Parent Institution: FIRST NATIONAL BANK OF BOSTON  
BOSTON, MASSACHUSETTSFinancial Statements as of SEPTEMBER 30, 1983


THIS REPORT OF EXAMINATION IS STRICTLY CONFIDENTIAL

This report of examination has been made by an examiner selected or approved by the Board of Governors of the Federal Reserve System for use in the supervision of the Edge Corporation and its subsidiaries. The information contained in the report is based upon the books and records of the Edge Corporation, upon statements made to the examiner by officers and employees, and upon information obtained from other sources believed to be reliable and presumed by the Examiner to be correct.

This copy of the report is the property of the Board of Governors and is furnished to the Corporation examined for its confidential use. Under no circumstances shall the Corporation or any of its directors, officers or employees disclose or make public in any manner the report or any portion thereof.

It is desired that each director, in keeping with his responsibilities, thoroughly review the report. In making this review, it should be kept in mind that an examination is not the same as an audit, and that this should not be considered to be an audit report.

FEDERAL RESERVE BANK OF  
ATLANTA

- 
4. Comments on the adequacy of measures taken to assure 1) protection against external crime; 2) compliance with: (i) the Financial Recordkeeping and Reporting of Currency and Foreign Transactions Act (31 CFR 103); (ii) the Foreign Corrupt Practices Act; (iii) the Federal Election Campaign Act; and 3) preparedness under emergency conditions.

4. The Corporation has taken satisfactory measures to assure protection against external crime; comply with the Financial Recordkeeping and Reporting of Currency and Foreign Transactions Act, the Foreign Corrupt Practices Act, and Federal Election Campaign Act; and preparedness under emergency conditions, with the exceptions noted on page 9a of this report.

84-25401



## REPORT OF EXAMINATION OF EDGE CORPORATION

680-1594

Name: BANK OF BOSTON INTERNATIONAL SOUTH  
 Location: MIAMI, FLORIDA  
 Parent Institution: FIRST NATIONAL BANK OF BOSTON  
BOSTON, MASSACHUSETTS

Examination Commenced: JULY 16, 1984  
 Examination Concluded: AUGUST 3, 1984  
 Financial Statements as of JUNE 30, 1984

### THIS REPORT OF EXAMINATION IS STRICTLY CONFIDENTIAL

This report of examination has been made by an examiner selected or approved by the Board of Governors of the Federal Reserve System for use in the supervision of the Edge Corporation and its subsidiaries. The information contained in the report is based upon the books and records of the Edge Corporation, upon statements made to the examiner by officers and employees, and upon information obtained from other sources believed to be reliable and presumed by the Examiner to be correct.

This copy of the report is the property of the Board of Governors and is furnished to the Corporation examined for its confidential use. Under no circumstances shall the Corporation or any of its directors, officers or employees disclose or make public in any manner the report or any portion thereof.

It is desired that each director, in keeping with his responsibilities, thoroughly review the report. In making this review, it should be kept in mind that an examination is not the same as an audit, and that this should not be considered to be an audit report.

10/16



6/30/84 Miami

FR 1231-9 (9/81)

Transit Number: 62-000

RECORDS, REPORTS, SYSTEMS AND CONTROLS

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4. Comment on the adequacy of measures taken to assure 1) protection against external crime; 2) compliance with (i) the Financial Recordkeeping and Reporting of Currency and Foreign Transactions Act (31 CFR 103); (ii) the Foreign Corrupt Practices Act; (iii) the Federal Election Campaign Act; and 3) preparedness under emergency conditions.
- 

4. The Corporation is adequately protected against external crime. The Corporation is in compliance with: (i) the Financial Recordkeeping and Reporting of Currency and Foreign Transactions Act (31 CFR 103); (ii) the Foreign Corrupt Practices Act; and the (iii) Federal Election Campaign Act; and has taken adequate measures for preparedness under emergency conditions.

Chairman ST GERMAIN. At this time, we'll hear from Mr. William L. Brown, chairman of the board, Bank of Boston.

Let's make this simple. Would the gentlemen at the witness table, please rise.

[Witnesses sworn.]

Chairman ST GERMAIN. Mr. Brown, we'll put your entire statement in the record. You may now proceed.

**TESTIMONY OF WILLIAM BROWN, CHAIRMAN, BANK OF BOSTON; DANIEL M. DORMER, VICE PRESIDENT, COIN & CURRENCY; STODDARD G. COLBERT, FIRST VICE PRESIDENT, IN CHARGE OF THE METROPOLITAN BOSTON BRANCH SYSTEM; RICHARD A. WILEY, EXECUTIVE VICE PRESIDENT; AND ROBERT STANKEY, ADVISER, OFFICE OF ENFORCEMENT AND OPERATIONS, DEPARTMENT OF THE TREASURY**

Mr. BROWN. Mr. Chairman, members of the committee. With me today are three of my colleagues. On my immediate left is Richard A. Wiley, an executive vice president of the bank. He has responsibility for staff services and has been principally responsible for assisting me in dealing with the matters we are here today to address. To Mr. Wiley's left is Daniel M. Dormer, vice president of the bank, in charge of our coin and currency department. To Mr. Dormer's left is Stoddard G. Colbert, first vice president of the bank, in charge of the Metropolitan Boston branch system.

I have submitted for the record a formal statement. In a few minutes, I will simply summarize the salient portions of this statement.

Let me say first that I hope my testimony here today will help the Congress to address the serious issues of compliance with the Bank Secrecy Act. I do not shrink from assuming responsibility for our failure to comply with our obligations under the act. I trust, however, that the lessons we have learned will prove valuable, not only to us but to the rest of the banking community and to those charged with regulating our financial institutions.

My views on the proper role of banks in this area have evolved significantly and my appreciation of the issues has deepened. Recent events, taken together with the studies conducted by the President's Commission and by committees of the House and Senate, make it clear that financial institutions must cooperate more actively with law enforcement authorities to prevent misuse of our financial system.

We at Bank of Boston recognize our moral and ethical obligations to assume greater responsibility in this regard. To that end, we are establishing more comprehensive procedures and systems to help ensure compliance with the requirements and the spirit of the applicable laws.

Before describing these procedures, I will outline the circumstances underlying two separate and distinct aspects our currency transaction activity. First, our international bank-to-bank transactions, and second, our domestic cash transactions and the management of our exempt list.

International bank currency transactions are legitimate and fundamental to the operation of today's worldwide financial market-

place. The banks participating in these transactions include many of our Nation's and the world's largest—those who, like us, are involved in providing international correspondent banking services.

It is not my intent to minimize the risk that the proceeds of illegal activities may make their way into the vaults of foreign banks and from there into international banking channels. I only wish to point out that our dealings were with large banks and that currency shipments took place only at their direct request. We have no means of knowing the original source of the currency shipped to us by the foreign banks or the use to which they put the currency we sent to them.

I can only stress that we would not knowingly engage in or assist others to engage in money laundering. I do not seek to excuse our failure to report these transactions. It resulted from our failure to take adequate measures to explain the amended regulations to our operating units and to make sure that the reporting requirements were implemented. No one at the bank had any intention of concealing the currency shipments.

The fact that we are engaging in these transactions was known to the Federal Reserve bank, and each shipment received was declared to Customs.

Let me turn now to the matter of transactions at our North End Branch. In the mid to late 1970's two real estate companies controlled by the Angiulo family were placed on the list that exempted their cash transactions from reporting. Although the regulations in effect at that time permitted this exemption, when the regulations were amended in 1980, the Angiulo businesses should no longer have been treated as exempt. Yet, through the exercise of poor judgment by various of our supervisors and operating personnel, they were retained on the list.

Our investigations have given us no reason to believe that any bank personnel acted out of improper motives or in any way benefited from placing or keeping the Angiulo companies on this list.

During recent weeks, we have been pursuing an intensive internal review of the bank's currency transactions and those of our affiliated subsidiaries. As we testified before the Permanent Subcommittee, a review of bank-to-bank transactions—

Chairman ST GERMAIN. Excuse me, Mr. Brown. Let me interrupt you for a moment. Talking about the Angiulos now, I studied this file and these exhibits. I've got a book here. It's a "Tale of Two Cities" compared to what I've read. The thing that impressed me was that you have tried hard to justify your lack of knowledge. In the legal profession, it's very common to want to get information disseminated, and the law provides in every State of the Union that you do so by publishing, let's say, in the major newspapers of the county in which those individuals are who should get notice. It's deemed constructive notice, and people are then required to comply.

When you talk about the Angiulos, that they were justifiably on the exempt list in 1976, when the first realty firm was put on it, I think in 1979, when the second realty firm was put on it, you feel that this was justifiable also. Well, perhaps if you looked upon them as ordinary realty and mortgage companies, your statement might be accurate.



Can you say, Mr. Brown and Mr. Colbert, that you had no knowledge that these individuals knew, though not proven, that these two firms were headed by, and controlled by a family, that was reputed to be involved in organized crime activities?

Mr. BROWN. No, Mr. Chairman, I don't think it was common knowledge.

Chairman ST GERMAIN. Which newspapers do you read, Mr. Brown?

Mr. BROWN. I read all the local papers.

Chairman ST GERMAIN. Do you read all the local papers, Mr. Colbert? Do you read all the local papers in Boston?

Mr. COLBERT. I read some of the local papers.

Chairman ST GERMAIN. Such as?

Mr. COLBERT. The Globe, for example.

Chairman ST GERMAIN. The Herald-Traveler?

Mr. COLBERT. Once in a while.

Chairman ST GERMAIN. Gentlemen, I am going to demonstrate something. You see, I am from Rhode Island. I knew about this family and its realty firms. On your easel to your left, there is an article from the Boston Globe. It is dated September 13, 1983.

There is another article from the Boston Globe, dated July 13, 1979. There are also two articles from Boston Sunday Herald-Traveler. One is from 1972 and is entitled "Angiulo Bet Ring Bared," while the other is dated 1967.

Mr. BROWN. Does it mention the companies? I don't know.

Chairman ST GERMAIN. Yes, the companies are mentioned, but the fact of the matter is—didn't you, Mr. Colbert and Mr. Brown, know who the controlling parties were in these firms?

Mr. BROWN. No.

Chairman ST GERMAIN. You don't bother to look? You just take a corporate name at face value and say, "Gee, that's a nice name?"

Mr. BROWN. Mr. Chairman, it's impossible for me to look at all of our customers. We have hundreds of thousands.

Chairman ST GERMAIN. Well, Mr. Brown, certainly I can go along with that; however, as Harry Truman once said "The buck stops here." When things go wrong on this committee, I'm the one who is held responsible.

Now we will hear from the distinguished Mr. Colbert. I assume you're a college graduate with all kinds of degrees; are you not, Mr. Colbert?

Mr. COLBERT. Not all kinds of degrees.

Chairman ST GERMAIN. You have a college degree, don't you? You read the local newspapers; right?

Mr. COLBERT. Yes, I do.

Chairman ST GERMAIN. What did you do? What steps did you two take to determine anything about these firms, not in 1976 or 1979, but when you were asked by Treasury to justify the exemptions? What did you do about it?

Mr. COLBERT. We took them off the list.

Chairman ST GERMAIN. How long after you were asked to do that?

Mr. COLBERT. Within days.

Mr. VENTO. Mr. Chairman, could you direct the witness to speak in the microphone? I can't hear what he is saying.

Chairman ST GERMAIN. Now you say days?

Mr. COLBERT. It was off the list.

Chairman ST GERMAIN. We swore you in, Mr. Colbert, and I have studied this file. If you're saying you took them off days after the Treasury contacted you, and asked you, that is inaccurate.

Mr. COLBERT. They were off in July 1983, when the list was sent in to the Treasury.

Chairman ST GERMAIN. When did the Treasury ask for more information on that exempt list?

Mr. COLBERT. On May 5, 1983. Pardon me. I'm sorry.

Could you repeat the question?

Chairman ST GERMAIN. In mid-1980, Mr. Colbert, Bert Cox worked for you, didn't he, and therefore you were responsible for his actions?

Mr. COLBERT. Yes.

Chairman ST GERMAIN. So you and he worked together in this area. Bert Cox, of DOD Branch questions North End, Branch Manager Gloria Cushing on why Angiulo Real Estate Companies are on exempt list. She convinces him that they should be. I've got the exhibit right here—To the best of my recollection during the summer and/or fall of 1982, I had a couple of conversations with Daniel Dormer, who continues to be the manager of Coin. We discussed the need for Coin to respond to the question raised by Mr. Stankey. The Stankey question being the justification, among other things, for those companies being on the list, as well as others.

This is in the affidavit by Mr. Cox which was submitted to the Senate Banking Committee.

Similarly, Mrs. Cushing informed me that the Federal National Mortgage Co., which typically had large transactions as the result of mortgage payments that were made in cash. Mr. Cox wasn't sure whether this was mid-1980 or 1982, but at the latest, it was 1982.

You're telling us they came off the list in 1983. That's not 2 or 3 days afterward.

Mr. COLBERT. I was not aware that the Angiulo family was on this list or who controlled it until—I'm sorry? Until after May 5, 1983.

Chairman ST GERMAIN. But saying that the Angiulos were taken off the list a few days after the Treasury inquiry, as to the justification for their being on the list for those two firms is inaccurate; is it not?

Mr. COLBERT. They came off the list sometime between May 5, 1983, and when the list was sent to the Treasury in July 1983.

Chairman ST GERMAIN. But do you know when Treasury asked for the justification?

Mr. COLBERT. I believe it was in June 1982.

Chairman ST GERMAIN. A year; right?

Mr. COLBERT. But I did not see that letter.

Chairman ST GERMAIN. That's one of those in-box, the check is in the mail deals.

Mr. COLBERT. No, it was addressed to Mr. Cox, and I did not see it.

Chairman ST GERMAIN. Mr. Cox worked for you; didn't he?

Mr. COLBERT. Yes, he did.



Chairman ST GERMAIN. Therefore, didn't he consult with you on these inquiries with Mr. Stankey at Treasury?

Mr. COLBERT. He did not.

Chairman ST GERMAIN. Mr. Stankey, did you have a conversation with Mr. Cox about this?

Mr. STANKEY. I'm not certain, Mr. Chairman, whether or not I had a telephone conversation. But I don't recall. To the best of my recollection, I did not, but I may have.

Chairman ST GERMAIN. You had a conversation with Mr. Dormer?

Mr. STANKEY. I don't know if I had a conversation with Mr. Cox. It's not clear. I get a great many phone calls.

Chairman ST GERMAIN. Now Mr. Colbert and Mr. Brown, did either of you see any of these newspaper articles?

Mr. BROWN. I may have seen them, Mr. Chairman, but it didn't mean anything.

Chairman ST GERMAIN. It didn't register with you?

Mr. BROWN. No.

Chairman ST GERMAIN. Is that because Boston has a lot of people who are reputed to be organized crime figures?

Mr. BROWN. No, it didn't occur to me that they might have accounts with us.

Chairman ST GERMAIN. When I read about people like this, it registers and I remember these things. I guess maybe some people don't think crime is important. I think it is important. I like to know who they are because I don't want to have any dealings whatsoever with them.

Mr. BROWN. I agree with you, it is very important, Mr. Chairman.

Chairman ST GERMAIN. Proceed with your statement, Mr. Brown.

Mr. BROWN. As we testified before the Senate's Permanent Subcommittee on Investigations, a review of bank-to-bank transactions by our coin and currency department resulted in the supplemental filing of CTR's on March 7, involving approximately \$93 million. As we broadened our review, we made a second voluntary disclosure on March 27 of approximately 1,200 currency transactions.

Mr. ROEMER. What year, Mr. Brown? Bring me up to date. March 27 of what year?

Mr. BROWN. Just a few days ago, and the bulk of those transactions were from a bank in Maine that we had just acquired last year.

Chairman ST GERMAIN. That is a bank that is examined by the Office of the Comptroller of the Currency; isn't it?

Mr. BROWN. Yes.

Chairman ST GERMAIN. They didn't find that out any more than they did with what was occurring in the Bank of Boston?

Mr. BROWN. Not to my knowledge.

We made a second voluntary disclosure on March 27 of approximately 1,200 currency transactions, totaling nearly \$110 million. The bulk of these latter transactions involved foreign exchange shipments between our Maine subsidiary and various Canadian banks and the shipments of U.S. currency from the Central Bank of Haiti to our international banking facility in Miami.

But these are past matters. A more important question now is: what are we doing to ensure compliance not only with the regulations governing currency transaction reporting but with all the laws and regulations under which we operate?

First, with respect to our exempt list, we have instituted a requirement that the branch managers conduct background checks on all customers before recommending their inclusion on the list. That recommendation must then be approved by an officer in bank headquarters and reviewed by the law office before it can take effect.

Moreover, we have begun voluntarily sending a copy of our list to the Treasury Department every 6 months.

As part of the compliance program, all currency transaction reports will first be approved by branch management or coin and currency and will then be sent to the central compliance office for review before being forwarded to the IRS.

A new log system has been implemented in order to track all large cash transactions, and these logs will be reviewed daily by management to be certain that all required CTR's are held on file. We hope in the near future to facilitate both recordkeeping and review by computerizing this log system.

We are providing to personnel at all levels of the bank improved training in the requirements of the Bank Secrecy Act and in identifying characteristics of money laundering schemes, and our internal audit procedures have been modified to ensure that we monitor our compliance with the law and regulations.

The risk management department, together with our new corporate compliance officer, is responsible for overseeing compliance with the Bank Secrecy Act at all levels of the bank.

Similarly, with regard to general regulatory compliance, additional responsibility will be placed in the hands of the compliance officer in each of the bank's line business units. The work of these officers will in turn be coordinated and supervised by corporate compliance units headed by a senior officer and reporting directly to executive management.

Our law office will assign an attorney to advise each of the bank's units concerning its compliance obligations, and the general counsel will work with senior management to remedy any compliance deficiencies.

Finally, as you know, a special committee of five outside directors has been created to review all these matters and make appropriate recommendations to management. The report is due by the end of May.

Let me close with this observation. While maintaining our obligation to serve our customers and protect their privacy, we cannot ignore the danger that criminals will attempt to use the banking system for illegal purposes. We can meet our responsibility to prevent such abuse by developing a meaningful "know-your-customer" policy, by being alert to suspicious activity, by working with the Government and our colleagues in the industry to detect money laundering, and of course by adhering scrupulously to the laws and regulations that govern the conduct of our business.

As you stated in your letter to me, Mr. Chairman, the public interest will be best served by full and fair presentation of the facts

surrounding Bank of Boston's past and present efforts to comply with the Bank Secrecy Act.

I have personally devoted a great deal of time to reviewing the history of our compliance with the act, and with the assistance of my colleagues, it is my hope that the bank can be as responsive as possible to the committee's inquiry.

Thank you, Mr. Chairman.

[Mr. Brown's prepared statement on behalf of the Bank of Boston follows:]

STATEMENT

OF

WILLIAM L. BROWN

Chairman of the Board, Bank of Boston

before the

FINANCIAL INSTITUTIONS SUBCOMMITTEE

OF THE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

OF THE

U. S. HOUSE OF REPRESENTATIVES

April 3, 1985

Mr. Chairman and Members of the Committee, my name is William L. Brown. I am Chairman of the Board and Chief Executive Officer of Bank of Boston.

As was true of my recent appearance before the Senate's Permanent Subcommittee on Investigations, I hope that my testimony here today will help the Congress come to grips with the serious problem of money laundering. I do not shrink from assuming responsibility for the failure of the Bank of Boston to comply with its obligations under the Bank Secrecy Act. I trust, however, that the lessons we have learned in the past few months -- including payment of a heavy fine -- will prove valuable not only to us but to the rest of the banking community and to those charged with regulating our financial institutions.

I agree wholeheartedly with the statement in your letter to me, Mr. Chairman, that "it is in the best interests of the Committee, the Bank of Boston and the public that these hearings present a full, accurate and fair picture of what happened and is happening in connection with the Bank's compliance with the currency transaction requirements." I and the other officers with me today are prepared to respond to your questions and to assist the Committee in achieving that goal.

\* \* \*

I want to place special emphasis today on the actions we have taken to improve the Bank's internal proce-



dures for ensuring regulatory compliance, but it is important that the Committee have a clear understanding of the facts underlying both our failure to report international currency shipments and our failure to comply fully with the regulations governing domestic currency transactions.

#### International Currency Shipments

For many years large commercial banks have engaged in the business of receiving currency shipments from foreign banks for deposit to their accounts and shipping currency to those banks. Until the mid-1970s most of those transactions were handled by New York banks, but logistical difficulties at Kennedy Airport led the foreign banks to seek alternative arrangements. The Bank sought out this new business and began sending and receiving substantial amounts of currency, dealing principally with three large, well-established Swiss banks.

The international shipments consisted of two separate and unrelated elements: first, shipments to Boston consisting mainly of small-denomination bills; and second, shipments to foreign banks consisting largely of new \$100 bills. These shipments were always made or received at the explicit request of the foreign bank, not at the instigation of the Bank of Boston. They traveled in a closed, bank-to-bank loop, and no individual depositor had access to them.

It is, of course, possible that some part of the cash that was deposited into the vaults of the Swiss banks originated from illegal activity. I do not in any sense

seek to minimize that risk or the importance of preventing criminals from obtaining access to the financial system. We are sensitive to the concerns expressed by the President's Commission on Organized Crime and by the Congress about the influx of small-denomination bills from tax-haven countries. I can only say that it was our understanding that the Swiss banks served as clearinghouses for other European banks, and Bank of Boston provided a service for those banks which we believed then and continue to believe was a legitimate one.

We were derelict in failing to file the necessary reports concerning our international transactions, and I do not seek to excuse that failure. No one at the Bank, however, had any intention of concealing the fact that we were shipping and receiving currency; each shipment or receipt was declared to Customs, and the nature of our international business was known to the Federal Reserve Bank of Boston. As I stated before the Permanent Subcommittee, we would not knowingly engage in, or assist others to engage in, money laundering.

The Bank's failure to file the requisite CTRs on its international transactions was the product of a number of factors but was primarily attributable to defects in our management systems. Compliance responsibility, then, as now, rested with line management, but the 1980 regulatory change was not acted upon by any of the appropriate line officers. Mr. Dormer, who was our officer in charge of the Coin and Currency Department and was responsible for inter-

national currency shipments, received the July, 1980 bulletin but failed to pay adequate attention to it. He was newly assigned to the department and assumed that the Customs declarations that were regularly being filed were the forms referred to in the new regulations.

Moreover, we did not then have in place a procedure for confirming that regulatory changes were, in fact, being implemented. Our Systems Research department was charged with developing internal operating procedures but only at the request of line departments, and no such request appears to have been made. Nor did our Law Office have any general responsibility to notify line management of changes in regulations and follow up to be certain that they were understood.

In early 1982 Systems Research was asked to prepare a revised operating procedure for currency transaction reporting, and a draft of that revision was reviewed by Mr. Dormer. If carefully read, the new procedure would have alerted management to the fact that foreign banks were no longer exempt, but the change was not highlighted and neither Mr. Dormer nor his superiors focused on it. Consequently, no action was taken to begin filing reports on international shipments.

Then, in April 1982 the Treasury Department wrote to the Bank asking for information about its exempt list. In July, Mr. Dormer called Mr. Stankey at Treasury to discuss certain questions about the domestic customers on the

list maintained by Coin and Currency. Mr. Stankey has testified that he also discussed with Mr. Dormer the question of reporting international transactions during that conversation (although I must point out that Mr. Stankey's memorandum of that conversation does not reflect such a discussion). Mr. Dormer himself has testified that he recalls some discussion of international shipments but understood Mr. Stankey to say only that transactions with individuals had to be reported. Since Coin and Currency did not deal with individuals, Mr. Dormer assumed, mistakenly, that no action on his part was required.

In the recent hearing before the Permanent Subcommittee on Investigations, Mr. Rollo of the Office of the Comptroller testified that he was asked to perform a special inquiry into the Bank's currency reporting practices during the regular examination being conducted in the fall of 1982. He has also testified that he contacted Mr. Dormer at that time and believes that he may have raised the subject of international transactions, although he informed Senate staff that he himself was unaware of the reporting requirement. Mr. Dormer has no recollection of that conversation, and in any event no reference to any violation of the reporting regulations was made in the 1982 examination report or any subsequent report.

We do not attempt to excuse our failure to file the necessary reports by relying on the absence of notice from the Comptroller. I raise the issue only as a further explanation of why the Bank continued to make foreign

currency shipments without filing reports until we were alerted in the summer of 1984 to the fact that we were not in compliance.

#### Domestic Cash Transactions

As the Committee knows, the first regulations dealing with currency transaction reports were issued in 1972. The Bank established procedures for implementing those regulations, and over the following eight years it maintained a central compilation of the exempt lists submitted by the various branches. Among the customers exempted by the North End branch during the 1970s were two companies owned by the Angiulo family -- Huntington Realty and Federal Investment. Both companies were engaged in the real estate business and had been placed on the list at a time when the regulations permitted their inclusion.

Responsibility for collecting and maintaining the branches' exempt lists was lodged with an officer in Banking Offices Administration, Hubert Cox. In 1980, when amended regulations were issued restricting exemptions principally to retail-type businesses, Mr. Cox asked each branch to provide him with an updated list. Both Huntington and Federal were on the list submitted by the North End branch although they clearly did not qualify under the stricter regulations.

When Mr. Cox received the April 1982 letter from the Treasury Department asking for a copy of the Bank's exempt list, he compiled the various branch submissions,



adding the customers of the Coin and Currency Department, and sent the list to Treasury. Shortly thereafter he received from Mr. Stankey an annotated copy of the list with an "x" next to customers (including Huntington and Federal) that did not appear to meet the requirements of the regulations and a check next to those for which certain additional information was needed. He then sent to each branch the names noted by Treasury and asked for the missing information -- in the case of Huntington and Federal, their taxpayer identification numbers. He did not believe, however, that he was required to remove from the list at that time the customers whose qualifications Mr. Stankey had questioned.

Either in 1980 or in 1982 (he does not recall which), Mr. Cox spoke specifically with the manager of the North End branch about the eligibility of Huntington and Federal. She asked that he retain both companies on the list because they dealt with "consumers" and because it was not unusual for North End realty companies to collect rent and mortgage payments in cash. Although Mr. Cox questioned whether the companies were retail businesses, he agreed to retain them.

Without question, that decision represented an exercise of bad judgment; under no interpretation of the 1980 regulations should the two companies have been kept on the exempt list. Nonetheless, our inquiry has revealed absolutely no basis for believing that either the initial

placement of the companies on the list or their retention in 1980 and again in 1982 was motivated by any desire for personal gain or other improper purpose.

#### Supplemental CTR Filings

We have been engaged in a continuing effort to analyze the currency transactions of all our affiliates and subsidiaries. We consider it our obligation to report to the government all transactions we are able to identify for which CTRs should have been filed.

Our continuing analysis resulted in a supplemental filing on March 7. That filing, which was discussed at the Permanent Subcommittee hearing, involved some 400 transactions by our Coin and Currency Department amounting to approximately \$93,000,000. A second supplemental filing on March 27 involved approximately 1200 transactions and \$110,000,000. Some 800 of the latter transactions consisted of foreign exchange shipments between our Maine subsidiary, Casco-Northern Bank, and various Canadian banks, amounting to approximately \$20,000,000. The bulk of these transactions occurred before we purchased the bank in March, 1984.

Another 59 of the March 27 transactions, totaling approximately \$73,000,000, involved shipments of currency from the central bank of Haiti to Bank of Boston International in Miami. These shipments were actually delivered to another bank in Miami for credit to the Haitian

bank's account in our subsidiary, but we have undertaken the responsibility to report them as though the currency had been received by us directly.

We are continuing our inquiry into our currency reporting compliance and will file further reports if additional unreported transactions are discovered.

#### Ensuring Future Compliance

As I said earlier, Mr. Chairman, it is important that we, and through us the rest of the banking community, learn from the events of the past months and develop new systems and procedures for ensuring that the problems we have encountered do not occur again. In that regard, it is not enough simply to solve the problem of making timely currency transaction reports; we must find solutions for all legal and regulatory compliance problems. Let me describe briefly both the specific and the general steps we are taking.

With respect to our failure to manage the Bank's exemption list, I should point out that in 1982 Mr. Cox had essentially final authority over the list and was not required under then-existing procedures to discuss his decisions with his superiors or with the Bank's Law Office. Under our new procedures, before recommending that a customer be placed on the exempt list, a branch manager is required to conduct a background check in order to ensure that the customer meets the standards contained in the

regulations; the branch manager's recommendation must then be approved by a senior branch administration officer of the Metropolitan Division of the Bank; and final inclusion on the list can come only after the recommendation has been cleared by the Law Office. Moreover, we are now voluntarily sending our complete exempt list to the Treasury Department every six months.

The Bank has taken a number of other actions as well to ensure continuing compliance with the currency reporting laws. In addition to the immediate remedial measures taken at the time that the violations were discovered, the Bank has embarked on a long-term plan to make certain that the Bank as an institution will comply with both the spirit and the letter of all currency reporting requirements.

A special task force, created in October 1984 expressly for this purpose, has completed its work on developing a comprehensive compliance program based primarily upon the recommendations of the President's Commission on Organized Crime. Currency transaction reports for domestic and foreign cash transactions will now be reviewed and signed by management in the branches and/or the Coin and Currency Department, and then sent to a central compliance office where they will again be reviewed and, if approved, forwarded to the Internal Revenue Service.

We are also taking steps to improve the training of officers and employees at every level of the Bank. Bank

personnel from tellers on up will receive ongoing training on the objectives and requirements of the Bank Secrecy Act and supporting regulations. Moreover, tellers, branch managers, and other appropriate Bank personnel will receive instruction on the characteristics of money laundering schemes in an effort to detect any such activities.

Perhaps most significant are the measures we are taking to monitor all transactions involving \$10,000 or more in cash. We have already implemented a new log system that requires tellers to record information about all large cash transactions. These teller logs are reviewed daily by management in the branches and in Coin and Currency to make certain that all of the required CTRs have been filed.

In addition, we are developing the software necessary to change this manual log into a fully computerized system. The computer program will not only enable us to track at the branch level all cash transactions of \$10,000 or more, but it will also enable us to detect system-wide multiple transactions totaling more than \$10,000 in the same account in a single day.

So that these procedures can be implemented properly and all future regulatory changes put into effect, the Bank is creating a network of compliance officers at branches, affiliates and Edge Act offices. The Risk Management Department will serve as the central repository for all currency transaction reports on both domestic and foreign



transactions and, together with our new corporate compliance officer, will be responsible for monitoring compliance with the Bank Secrecy Act.

Our internal auditing program is also being modified to improve compliance efforts. The Audit Department will conduct both periodic (scheduled) and random (unscheduled) audits of all areas of the Bank that are required to file CTRs. These audits will involve examination of teller's journals, cash transaction logs, and summaries of CTR filings. In certain circumstances, the auditors will also review backup documentation for large currency transactions (such as withdrawal/deposit slips and checks) for a given time period to determine whether all required CTRs were in fact filed. If the auditors detect unreported transactions or problems with the exempt list, they will bring them to the attention of the Bank's central compliance officer and/or other responsible supervisory personnel. The Audit Department will then review the remedial measures taken to avoid recurrence of the reporting problems.

With regard to general regulatory compliance, authority will continue to be in the hands of the Bank's line business units. Each unit will name a compliance officer who will be responsible for reviewing, designing and implementing that unit's compliance procedures, bringing to that task a special expertise in and understanding of the unit's activities and needs. In addition, a corporate-level

compliance unit will be established, headed by a senior officer and reporting directly to executive management. This unit will identify new laws and regulations, oversee and coordinate compliance on a corporation-wide basis, and ensure that the necessary policies and procedures are developed and disseminated. Moreover, a central system will be established to identify the units and individuals responsible for particular laws and regulations, so that such information will be readily available to all Bank employees in implementing compliance procedures.

As the final element in our compliance system, our Law Office will continue its practice of designating lawyers to respond to the needs of particular client units. These lawyers will be available to provide advice on a priority basis when compliance issues arise, and the General Counsel will be notified of all compliance failures. He, in turn, will assist the chief compliance officer and other senior management officials to resolve any such deficiencies.

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Before closing, let me comment briefly on the proposed legislation that has been submitted by Congressman McCollum and by Congressman Hughes of the Judiciary Committee. Whatever efforts the banks and regulatory agencies make to ensure future regulatory compliance -- and I have no doubt that those efforts will be substantial, there must be a more direct attack on the problem of money laundering. We

certainly support the bills in both the House and the Senate that would accomplish that end. We also welcome the new exemption-list procedure proposed by Congressman Hughes -- a procedure that would place on the customer the burden of making an affirmative application and would leave ultimate approval in the hands of the Treasury Department.

Finally, Mr. Chairman, I want to add a personal note. During the past few months, as I have tried to assess the events leading up to the Bank's plea of guilty and have prepared for my appearances before the Permanent Subcommittee on Investigations and before this Committee, I have had a chance to consider what the relationship between the banking community and law enforcement authorities should be.

Obviously, banks have an obligation to serve their customers and to preserve their customers' privacy. That does not mean, however, that we can ignore the risk that criminals will attempt to misuse the banking system. We have, as I said in my Senate testimony, a moral and legal responsibility to prevent such misuse by developing a meaningful "know your customer" policy, by being alert to suspicious activity, by cooperating with government and industry efforts to detect and prevent money laundering, and, of course, by adhering scrupulously to the laws and regulations that govern the conduct of our daily business.

We at Bank of Boston are committed to fulfilling that responsibility.

Chairman ST GERMAIN. Thank you, Mr. Brown.

Mr. Brown, your closing remarks are very pleasing to us.

Do you now know why Congress passed, after extensive hearings, the Bank Secrecy Act?

Mr. BROWN. Yes.

Chairman ST GERMAIN. What is your opinion? Why? Explain it to me.

Mr. BROWN. Obviously, you wanted to do everything you could to stop drug trafficking and money laundering of the funds received from drugs and criminal activities.

Chairman ST GERMAIN. Do you agree that organized crime figures, who have been making profits probably better than yours, follow all of the regulations very closely and then are very sophisticated when it comes to laundering money?

Mr. BROWN. I would assume so.

Chairman ST GERMAIN. Their attorneys are high priced, very efficient and very effective.

Now, Mr. Brown, the attitude that you have displayed this morning isn't quite the attitude that you had in the past; is it, even at your news conference after the fine had been levied?

Mr. BROWN. Obviously, Mr. Chairman, in the past several weeks our views have evolved as a result of the incidents over the past several weeks and we are taking a much more serious view of the matter. In addition, we have taken all kinds of actions to see that it doesn't happen again.

Chairman ST GERMAIN. Do you read the American Banker?

Mr. BROWN. Yes.

Chairman ST GERMAIN. It is a rather important publication to people like yourself; is it not?

Mr. BROWN. That is correct, it is.

Chairman ST GERMAIN. Do you expect your chief executives, your top personnel, to also read the American Banker?

Mr. BROWN. I am sure most of them do, yes.

Chairman ST GERMAIN. It is not only required reading, it is also rather helpful reading to them, is it not, in order to know what is going on in the industry?

Mr. BROWN. Yes.

Chairman ST GERMAIN. Good.

Now, you stated at your February 11 news conference—and I quote—"We received thousands of government bulletins, literally thousands, in the course of a year."

You told me you had thousands of customers a few minutes ago, but we have discussed that, and that is how you endeavor to explain the fact that the Bank of Boston failed to comply with the 1980 change in the regulations.

Now, the Treasury change was highlighted on page 1 of the Federal Register, which is dated June 15, 1980. However, on June 4, 1980, the American Banker in a page 1 article stated "Treasury tightens rules on reporting large transactions."

Is it fair to assume that your top personnel read that particular article?

Mr. BROWN. I would assume some of them may have. Obviously, we all don't read it every day, but it would be a good presumption that some of them did.



Chairman ST GERMAIN. On June 5, 1980, Treasury Assistant Secretary for Enforcement Richard Davis testified before the Senate Banking Committee. That was also publicized?

Mr. BROWN. I don't know whether that American Banker's article got into bank-to-bank transactions or not.

Chairman ST GERMAIN. Well, I have got it here—even the ABA article which is titled: "Treasury Tightens Rules." You also received the Treasury news release and the Treasury testimony. Then you received the Comptroller of the Currency's memorandum which was titled: "Banking Bulletins, Banking Bulletin Amendments, CFR-103." This memorandum went to each chief executive officer of each national bank, all regional administrators, and all examining personnel. That is the one with all the initials, including your own, Mr. Brown. WLB is William L. Brown.

That one does indeed refer to the final rule, the sections on reporting currency and foreign transactions. So that one was cited, as you will agree.

By the way, the initials are typed on?

Did you indeed read this bulletin, or did somebody just type your initials on them to say, well, it went over to his desk and he should have read it?

Mr. BROWN. No, I didn't read it.

Chairman ST GERMAIN. You did not. What would be the reason? Does the WLB issue mean for distribution? Was it sent to you, but you just didn't get around to reading it?

Mr. BROWN. No. At that time I wasn't chairman of the bank, I was the president of the bank. The procedure we had set up at that time was for all incoming bulletins of this nature to go to Mr. Wiley, on my left. Then he would take a look at them, and his secretary would type on the initials of the appropriate individuals after he had indicated the areas of the bank that were likely to be interested in the bulletin.

In my case, my secretary simply kept a file so that she had a complete record of all bulletins received in the event we ever needed to refer to anything. It is impossible for me to read all the bulletins that come in, and I don't as a matter of practice. I rely on line management and on the law office to do that for me.

Chairman ST GERMAIN. However, your reliance was misplaced wasn't it?

Mr. BROWN. Yes, in this case it was.

Chairman ST GERMAIN. Because nobody picked it up.

What does a fellow like Mr. Colbert—not he individually, not on the button—but what does he make per year? \$10,000, \$15,000 in salary?

Mr. BROWN. No, I would assume he makes considerably more than that.

Chairman ST GERMAIN. Such as what?

Mr. BROWN. \$30,000 to \$40,000.

Chairman ST GERMAIN. \$30,000 to \$40,000. These other chaps whose initials are on there, should we assume they are in the \$40,000 or the \$100,000 bracket?

Mr. BROWN. Yes. A couple of them are close to \$100,000.

Chairman ST GERMAIN. The chief financial officer, that is a responsible position, he must do all right. Doesn't he?



Mr. BROWN. Yes.

Chairman ST GERMAIN. How did Mr. Brown do?

Mr. BROWN. As reported last year, my base salary in 1983 was \$350,000.

Chairman ST GERMAIN. OK. Now, from the ABA article, you should have known about the change in the Bank Secrecy Act. See that one on the right? It is pretty good. The ABA had a story in the American Banker and publicized the change in its bank compliance publication. It cites details on Bank Secrecy Act compliance. The article has a bold face excerpt which reads: "Exemptions of tightened penalties are severe."

Wouldn't you expect that somebody would read that? That was during the summer of 1982.

Mr. BROWN. I would assume, Mr. Chairman, someone perhaps did read it. I would also have thought that we would have put into effect what was required of us by any bulletin that we received.

The one thing we missed was the need to report foreign bank-to-bank transactions. That is the one thing we missed.

I think we have a good record of complying with Government rules and regulations. Once we failed to implement the change requiring the reporting of foreign bank transactions, the numbers are meaningless because every transaction that we engaged in simply added on to the previous ones. If this had been picked up, you know, a year after we missed it, the amounts would have been quite small.

Chairman ST GERMAIN. You don't mean to say you just missed a filing transaction? You missed a whole lot on the domestic exempt list, too.

Mr. BROWN. The domestic exempt list is a separate and distinct issue.

Chairman ST GERMAIN. But you missed that one, too. Those regulations were issued at the same time, the changes in the regulations in, 1980, both on the domestic exempt list and the international.

Mr. BROWN. That was a matter of interpretation by a branch manager, and it was not reviewed up the line.

Chairman ST GERMAIN. Now, Mr. Colbert read a memorandum explaining the regulation and citing the words "commensurate with the ordinary," you know, in the course of their business, reading from the regulation issued by Treasury.

Mr. BROWN. I don't believe that focused on bank-to-bank transactions, Mr. Chairman.

Chairman ST GERMAIN. Mr. Brown, you said the only thing you missed was the foreign bank situation. Now, I am asking you to explain that statement because your bank also missed the changes on the exempt list and the tightened requirements on the exempt list for deposits of over \$10,000.

Mr. BROWN. I don't think we missed the changes, Mr. Chairman. It was the interpretation. We didn't miss the changes. The changes were circulated to all of our branches.

What occurred was the manager of the north end branch felt that because these realty companies were dealing in mortgage payments, she determined in her wisdom that they complied with the law and kept them on the exempt list.

Chairman ST GERMAIN. Wisdom or opinion?

Mr. BROWN. Whichever. In her opinion. Obviously, it wasn't good wisdom.

Chairman ST GERMAIN. That is right.

Didn't you report an additional 1,200 filings in this area, other than those at the north end branch on the exempt list?

My staff tells me that last week you reported another 12 violations which were a combination of international and domestic discrepancy violations. Is that correct?

Mr. BROWN. Yes, we reported that last week. That is what I read to you in my statement, that these were bank-to-bank international transactions that I reported.

Chairman ST GERMAIN. It says that the bank transactions have been switched to bank-to-bank, in which no individuals and companies are involved. That was your statement at your annual meeting; right?

Mr. BROWN. That is correct.

Chairman ST GERMAIN. You said international bank-to-bank transactions are perfectly legal despite what you may have seen reported in the news media. "What takes place before the currency is shipped to Greek banks might involve money laundering, but we have no knowledge of that, but again these transactions are perfectly legal and are recognized as such by Federal regulators."

That is page 2 of your annual meeting statement.

But the fact of the matter is, Mr. Brown, that these transactions are required to be reported, perhaps not in your wisdom and opinion, but in the wisdom and opinion of others. There are some who feel that it is important to report them because it could be a way of detecting money laundering operations.

Mr. BROWN. I agree with that statement. It is important. We should have reported it, and we paid a heavy fine and said we failed to report it. But what we pleaded guilty to was a failure to report. It wasn't to laundering the \$1.2 billion.

Chairman ST GERMAIN. No one here is saying that you laundered that, but the fact of the matter is that was at last week's annual meeting of the stockholders of the Bank of Boston. Isn't that correct?

Mr. BROWN. That's right.

Chairman ST GERMAIN. Were you trying to appease them by saying how legal this was? It was illegal not to report; wasn't it?

Mr. BROWN. We reported that to them, but what we pleaded guilty to was illegal and we paid a fine. That's in our report.

Chairman ST GERMAIN. Mr. Roemer said that you said that no one at the Bank of Boston profited by keeping the Anguilo firms on the list. That's what you said; right?

Mr. BROWN. That's what I said, to the best of our investigations.

Chairman ST GERMAIN. Mr. Roemer brought up a good point and I want to credit him with this question. He said, "Didn't the Bank of Boston profit by their being there, by having the Anguilo accounts in the north end branch?"

Mr. BROWN. Possibly, as we'd profit from any customer that keeps accounts with us; yes, Mr. Chairman.

Chairman ST GERMAIN. I'm going to ask one last question for now and then go on to the other Members. I'll come back to you later on.

For a 4½-year period, \$1.2 billion went unreported. You paid a \$500,000 fine; correct?

Mr. BROWN. Correct.

Chairman ST GERMAIN. In the correspondence between Mr. Cox and the Federal Reserve Bank of Boston memoranda, he said that this was a very valuable bit of business having these international banks switch from New York to Boston for these transactions. Do you remember seeing those documents of memoranda?

Do you know, Mr. Brown, what the profit was on \$1.2 billion in transactions that went unreported to the Bank of Boston, between the flow and everything else?

Mr. BROWN. Over a 4½-year period, I believe the number—I can stand corrected—is around \$1 million but giving credit for balances as well.

Chairman ST GERMAIN. So, all told, the profit would be what?

Mr. BROWN. Around \$1 million.

Chairman ST GERMAIN. Not \$1 million, \$5 million?

Mr. BROWN. I don't think so. I could stand corrected, but my recollection is around \$1 million.

Chairman ST GERMAIN. \$1 million and you paid a \$500,000 fine. So you're still \$500,000 ahead of the game; right?

Mr. Wylie?

Mr. WYLIE. Thank you, Mr. Chairman.

Indeed, staff is to be complimented for the fairness of the job they have obviously done in getting information gathered and you, Mr. Chairman, are to be complimented for the job you have just done.

To put things in perspective here, apparently there was a breakdown in communication—if I might use that phrase—in that it seems that a lot of information was lost in the transmission. Would you describe the process that you're now using so that the Bank Secrecy Act can be complied with and will be complied with. Is that a high priority in your bank, Mr. Brown?

Mr. BROWN. It's the highest priority.

Mr. WYLIE. To what extent did this reflect the regulatory treatment which your bank received; to what extent did your new found high priority list come from what the regulators suggested to you?

Mr. BROWN. I think the result has come from the result of what has occurred here.

Mr. WYLIE. Here's where I'm coming from. You indicated that the bank's legal department did not monitor the suggestions by the regulators on the Bank Secrecy Act with reference to these transactions?

Mr. BROWN. I'm not quite sure. Our line officers had responsibility for compliance under our old system. We have a very elaborate system and we think it will never happen again. But under the old system the law officers and our systems research department were merely used as an advisory staff if we wanted to call on them. I am not sure, Mr. Wylie, I am sorry.



Mr. WYLIE. I suppose the point I am making is that the legal department wasn't told that we have this Bank Secrecy Act and we want you to help us comply with it in the reporting requirements.

Mr. BROWN. Well, they received a copy of the bulletin, yes.

Mr. WYLIE. What were they doing all this period of time when these reporting requirements were necessary?

Mr. BROWN. Maybe I can refer to Mr. Wiley on my left here. The legal department reports to him.

Mr. WYLIE. I would be glad to. I can understand how you might have missed some of the transactions. There are a lot of transactions that go through the bank but certainly the lawyers in the bank should have suggested that maybe you were not complying with these requirements and it's my understanding that Mr. Stankey or someone in his office, reported this to the Bank of Boston earlier, to the legal department. Is that right or wrong, Mr. Wiley?

Mr. WILEY. On the last part of your question, Congressman, I don't believe Mr. Stankey spoke with anyone in our legal department. As far as the role of the legal department at that time, as Mr. Brown has indicated, the law office regularly was on the distribution list for all the notices of changes in the law and regulations from the Federal Reserve Board and from the Comptroller. It's role was that of advisor to the line and staff divisions and departments.

Obviously, different lawyers worked regularly with different officers in the line and staff departments and called the attention of their regular clients to changes in the law which they became aware of but, as Mr. Brown has indicated, our policies at that time placed basic compliance responsibility with the line management. The law office, in effect, was in a legal advisory, consultative role and had no direct responsibility for compliance management as such.

Chairman ST GERMAIN. So if Mr. Cox or Mr. Colbert or Mr. Dormer do not understand a regulation, what should they do?

Mr. WILEY. They're perfectly free to consult the legal department at any time.

Chairman ST GERMAIN. Perfectly free. I asked you what should they do?

Mr. WILEY. They should have consulted the legal department.

Chairman ST GERMAIN. It is an amazing attitude. You first answered "perfectly free to consult." Don't they have an obligation?

Mr. WYLIE. I would assume they do; yes.

Chairman ST GERMAIN. That's a little better. Thank you for yielding.

Mr. WYLIE. Does the legal department have some obligation? The Bank Secrecy Act wasn't just passed in a vacuum and we believe that the Bank Secrecy Act is a pretty important piece of legislation. It would seem to me that the law department of a bank should have looked at the Bank Secrecy Act and said to the officers in the bank, here's a new law that we have to comply with and this is what we have to do as part of reporting requirements.

Mr. WILEY. Congressman Wylie, as I understand it, the act was originally passed in 1970. It was held up a bit by a court challenge and then I think the regulations became fully effective in 1974; if I'm not mistaken. This precedes my tenure with the bank, but as I understand, at the beginning, there was very substantial attention

given to compliance with the act, various internal bulletins in which corporatewide policies were published, operating procedures were developed. These were circulated within the applicable departments; there were various training programs put on, and I think there was a very substantial and far-flung effort to comply with the act.

Mr. Brown has indicated, I think, what led to the difficulties which we have faced in recent weeks. In effect, a particular change—the one in July 1980—simply did not get the type of implementation and attention that it should have gotten. Prior to that point in time and since that time, as far as I am aware, the appropriate attention has been given, in effect, by our various systems for policies and implementations to the various aspects of the act.

Mr. WYLIE. Mr. Stankey, I received a telephone call yesterday which I'm trying to followup on, that money laundering is widespread among banks today. How would you comment on that?

Mr. STANKEY. In what way, Mr. Wylie? Banks deliberately launder money?

Mr. WYLIE. Yes, in your experience, do you think it is or isn't?

Mr. STANKEY. I don't think it's common among banks to deliberately launder money. Whether or not banks are, in fact, recycling money from organized crime is another question. They may be doing it unknowingly or unwittingly.

Mr. WYLIE. They may not be complying with all the reporting requirements as was the case of *Bank of Boston*.

Mr. STANKEY. No, that isn't what I mean. They may be complying with the reporting requirements as they view them and still be handling money that is being run through legitimate corporations or firms or—as what happened in Florida—they may, in fact, file the reports of money that's being brought in to the bank.

Mr. WYLIE. Currently, most of the problems started with the so-called exempt list. Would you have suggestions as to how we might make the exempt list tighter? Should more restrictive requirements be imposed? Or even if they were imposed we'd have to have some way of communicating this.

Mr. STANKEY. You'd have to have some way of insuring compliance, insuring that the banks are, in fact, reading the regulations and taking appropriate action, and that their internal auditors are following up to make sure that the operating people are doing what they should be doing.

It's possible that it may be advisable to tighten up the exemption procedure in some way to assure that the banks pay appropriate attention to exemptions before they're granted.

Mr. WYLIE. I've been given a notice that my 5 minutes have expired. I'll come back to that later.

Chairman ST GERMAIN. Mr. Stankey, was it 1982, that you noted the excessive flow of cash—\$100 bills—in the Boston area? Was that the approximate date?

Mr. STANKEY. In 1982; that's correct.

Chairman ST GERMAIN. In that time you were responsible for blowing that whistle and for the fact that a task force was put together by IRS and Treasury?

Mr. STANKEY. I was one of the people instrumental in that.



Chairman ST GERMAIN. Right.

Mr. Brown and Mr. Wiley, let me ask both of you something. If Mr. Stankey hadn't blown the whistle on Boston area banks by saying, there's a lot of money going in there that we don't see any reports of currency transactions, CTR's, currency transaction reports. It could have been another 15 years before the Bank of Boston issued internal procedures; 30 years or 40 years, how long would it have taken?

Mr. BROWN. I have no idea. Someone brought it to our attention.

Chairman ST GERMAIN. It was brought to your attention by the fact that you were brought to court; right? Cited for violations, and noncompliance.

Mr. BROWN. Yes, Mr. Chairman, that certainly brought it to our attention.

Chairman ST GERMAIN. So this holier than thou attitude we have this morning is one we really appreciate, however, the Bank of Boston—Mr. Wiley, is he your chief counsel?

Mr. BROWN. No, he is not. The chief counsel reports to him.

Chairman ST GERMAIN. Are you an attorney, Mr. Wiley?

Mr. WILEY. Yes, I am.

Chairman ST GERMAIN. So, therefore, you have responsibility for the counsel's office.

Mr. WILEY. That is correct.

Chairman ST GERMAIN. Are you well-compensated for your efforts? How you're doing with your background and your knowledge?

Mr. WILEY. I think probably so.

Chairman ST GERMAIN. It's in the annual report as to what you make; is it not?

Mr. WILEY. No, it's not.

Chairman ST GERMAIN. Let's play that you're a Congressman. Give us a range. Are you earning anywhere from \$70,000 to \$100,000?

Mr. WILEY. In that range.

Chairman ST GERMAIN. Are you above \$100,000?

Mr. WILEY. Yes. [Laughter.]

Chairman ST GERMAIN. Not bad.

Mr. Stankey, my God, we better get you a raise in Treasury because, you found out what they weren't doing; right? They're in noncompliance. Are you an attorney, Mr. Stankey?

Mr. STANKEY. No, I'm not.

Chairman ST GERMAIN. See, he's not even an attorney and he got you.

How long do you think it would have taken, Mr. Wiley, for the Bank of Boston to comply with the Bank Secrecy Act but for Mr. Stankey's noticing the excessive shipment of \$100 bills to the Federal Reserve Bank of Boston?

Mr. WILEY. I'd like to think that our internal audit department would have picked it up in the very near future.

Chairman ST GERMAIN. Oh, great. You're wonderful because we're going to get to that internal audit.

Mr. Annunzio?

Mr. ANNUNZIO. Thank you, Mr. Chairman.

I've heard before about 'the internal audit department will pick it up.' You're reading my mind. We were together at Penn Square, and the same question was asked of Continental and their officers sitting on the throne there. They said that eventually our internal auditing department would pick it up. Unfortunately, it was not picked up. Everybody was hurt, including the banking community.

Mr. Brown, I've listened to your statement; I've read your statement. In the Boston area there are probably thousands of real estate firms and many of them are your customers. Do you have any idea how many such firms bank with you?

Mr. BROWN. No, but a lot of them do.

Mr. ANNUNZIO. Can you tell me on these firms, on the lot that bank with you, about how many of these real estate companies had exemptions to the money reporting requirement such as the one you granted the Huntington Realty or Federal Investment?

Mr. BROWN. I don't know. We revised our list in 1983. Whether others were on the list or not at that time, I don't recall. I would certainly assume that at this time they're not on the list.

Mr. ANNUNZIO. Give us some idea—5, 10, 50, 100, got exemptions? You must know who you granted exemptions to.

Mr. BROWN. Well, I'm sorry; I really don't.

Mr. ANNUNZIO. Well, since you paid this big fine, haven't you looked at some kind of a list to find out?

Mr. BROWN. When we received the subpoenas in 1983, we immediately took a look at the list and removed improper names from the list—I just have no idea who we removed from the list.

Mr. ANNUNZIO. Have you bothered to look at the list lately, after all this publicity?

Mr. BROWN. We've looked at the list very carefully and I would say there are no real estate companies on the list today.

Mr. ANNUNZIO. If you reviewed the list very carefully, tell me how many people are on the exempt list.

Mr. BROWN. I don't know. Could I turn to one of my associates?

Mr. ANNUNZIO. Well, you looked at it very carefully.

Mr. COLBERT. There are 44 on my list, the domestic side.

Mr. DORMER. And there are none on the foreign currency side.

Mr. ANNUNZIO. You pay a \$500,000 fine, and you don't know. I'm trying to get some numbers. You know, I was here when they passed this Bank Secrecy Act. I was here on that \$10,000 that they were supposed to report; I was here when the exemption was made for real estate people because most real estate people don't like doing business with cash. They want checks.

Chairman ST GERMAIN. If the gentleman would yield. On June 8, 1982, our friend, Mr. Stankey, wrote a letter to Mr. Cox. I assume that Mr. Colbert saw that letter, or at least has looked at it since then, because I wrote you a letter, Mr. Brown, and I hope your people have gone over the material you provided to us, at least. I went through it all in preparation for this hearing. It seems to me that your people should have done the same.

Mr. BROWN. We have. All of us have seen that.

Chairman ST GERMAIN. Mr. Colbert, on June 1982, Mr. Cox received a letter from Mr. Stankey asking for more information on the exempt list. Did he not?

Mr. COLBERT. Yes, sir.

Chairman ST GERMAIN. Have you looked at that list since? Have you reviewed it?

Mr. COLBERT. Yes, sir.

Chairman ST GERMAIN. Mr. Annunzio asked how many other real estate companies were on the list; he asked that of Mr. Brown a few moments ago.

Mr. COLBERT. I thought he was referring to the total number.

Chairman ST GERMAIN. He asked how many real estate companies or mortgage companies were on that list. Correct? Wasn't that the question?

Mr. ANNUNZIO. That's right. If I had paid out a \$500,000 fine, I'd make it my business to find out who is on the exempt list.

Chairman ST GERMAIN. The point is, Mr. Annunzio, if you will yield to me 1 second further——

Mr. ANNUNZIO. Sure.

Chairman ST GERMAIN. You made a darned good point and they're not answering the question. The answer to that question is that there were two firms, Huntington and Federal. There were no realty or mortgage firms on that exempt list, gentlemen.

Mr. BROWN. Well, Mr. Chairman, I wasn't looking at that list. Mr. Wiley wasn't looking at the list, under our procedures.

Chairman ST GERMAIN. We just asked Mr. Colbert the question and he didn't have the answer.

Mr. COLBERT. I responded to that question. I thought he was asking how many names were on our list at this time.

Chairman ST GERMAIN. Let me repeat the question to you, Mr. Colbert:

How many other real estate or mortgage companies were on the exempt list in June 1982, other than Huntington and Federal?

Mr. COLBERT. No others.

Chairman ST GERMAIN. So ultimately, there were only two.

Mr. ANNUNZIO. Mr. Chairman, at that point, so long as they were the only two that were on the list, now maybe Mr. Brown and Mr. Colbert can enlighten me.

How does it happen that there were only two? How does it happen that those two were the ones getting the exemption?

Mr. BROWN. This was the recommendation of the branch manager, who was responsible for her branch, and she put them on the list. As I understand it, our investigation showed that Mr. Cox questioned it. She insisted that they were retail in the sense that they were collecting cash mortgage payments for rentals in the area. And she obviously used very poor judgment in retaining them and so did Mr. Cox in retaining them on the list.

Chairman ST GERMAIN. Mr. Colbert, who is Mr. Cox's superior, knew about this conversation between Mr. Cox and Ms. Cushing, didn't he?

Mr. COLBERT. Not until after May 5, 1983.

Chairman ST GERMAIN. Did Ms. Cushing justify to Mr. Cox why these two companies should be on the list? The only two real estate companies on the list? You don't think it's because she lived in the North End and was friendly with these people?

Mr. BROWN. That would be a presumption, Mr. Chairman.

Chairman ST GERMAIN. I didn't ask you about a presumption. That wouldn't cross your mind?



Mr. BROWN. They had been depositors of the bank for 25 years when she became manager of the branch, and I don't know what thought process she went through. Obviously, it was a poor one; she used bad judgment.

Chairman ST GERMAIN. Now to get on the exempt list, didn't they have to ask for the authority to get on that list?

Mr. BROWN. I don't think so.

Chairman ST GERMAIN. She put them on automatically, out of the goodness of her heart?

Mr. BROWN. Yes, and at the time she put them on, under the definition, they were put on properly because, at that time, I believe the definition was that anyone dealing in large amounts of cash could be put on the exempt list.

Chairman ST GERMAIN. But doesn't it seem odd that they were the only mortgage or real estate company on that exempt list?

Mr. BROWN. Mr. Chairman, yes, if, today, I looked at it and you looked at it, it would seem very odd. The only people who were looking at that list then were Mrs. Cushing and Mr. Cox.

Chairman ST GERMAIN. He had Mr. Stankey look at it, right?

Mr. Stankey, what do you think about this? Just a little poor judgment, or what? You questioned their being on the list, didn't you, Mr. Stankey?

Mr. STANKEY. Yes. I questioned it purely from a technical point of view. To me, it seemed obviously unusual and without having any background about the people who controlled the account or signers on the account, even though I didn't know anything about the Angiulos—

Chairman ST GERMAIN. You didn't know anything about them; yet, it looked peculiar to you. You're in Washington; not Boston. You don't read the Herald Traveler, the Boston Globe, or those other things.

Mr. STANKEY. That's correct.

Mr. ANNUNZIO. It might be peculiar but it sure looks damned strange to me.

I'll go on to something else. I wish you had brought Mr. Cox with you, or Ms. Cushing, or whoever had the responsibility.

Mr. BROWN. She's retired.

Mr. ANNUNZIO. I'd like to know how she, while she is retired, Continental people that paid these loans, they're retired. [Laughter.]

I'll tell you, you guys have a way of really getting out from under without going to jail, that's the miracle of miracles. Anybody can pay a fine.

Now, Mr. Brown, about how many demand deposit accounts does your bank have in both business and commercial accounts?

Mr. BROWN. Several hundred thousand.

Mr. ANNUNZIO. I imagine it's many thousands. Could you tell me about how many overdrafts your bank handles each year?

Mr. BROWN. I have no idea.

Mr. ANNUNZIO. Would it run into the thousands of overdrafts each year?

Mr. BROWN. I just have no idea. I assume it would, yes. But I just don't have the numbers, Mr. Congressman.

Mr. ANNUNZIO. Can you tell me how much you charged the customer for these overdrafts?

Mr. COLBERT. \$12.50.

Mr. ANNUNZIO. Every consumer, every poor little guy, pays \$12.50.

Mr. COLBERT. After, I think, the first two or three overdrafts.

Mr. ANNUNZIO. He pays \$12.50. Now how do you explain that your bank can follow these overdrafts down to the penny, make certain that consumers are charged for overdrafts at the rate of \$12.50, and now you want this committee to believe that you had no way of following more than \$1 billion in cash transactions when each amount was smaller than \$10,000?

I must tell you honestly that if you are as sloppy in your record-keeping as you've indicated in your statement, which I have here—I wish I had the time to go carefully through these statements—I wonder if any of your depositors can be certain that the interest on your checking or savings account is accurate or that the loan payments are correct.

Mr. BROWN. Mr. Chairman, you're really talking about two different things. In the case of our deposits from our customers, that is all computerized; and if they run into an overdraft, it simply shows up. In the case of the bank-to-bank transactions, we did not put the regulatory change into effect in our system. If we had put the change in our system from day one, there would have never been a failure to report. There is absolutely no intention to fail to report, we just didn't put the change into our system. That's the mistake we made.

Once it doesn't get in the system, it doesn't matter how many transactions we carry on; none of them will be reported and none were.

Mr. ANNUNZIO. Mr. Brown, I've got to tell you, you know, it appears to me that the criminals are getting the better out of the deal. That's the way it appears to me.

My time is up, sir, and I've got to stop but I wanted to continue this line of questioning on behalf of the little guy, the little consumer who has to pay his \$12.50. But these guys that are dealing in billions—I could also point out to you I was here in 1970. I've been here for 21 years and, you know, a lot of things have changed in the country, in the committee.

When we passed that legislation we were dealing in just millions of dollars in gambling money, but, today, it's grown way out of proportion. It's not only gambling, it's money that's the worst type of money that ever has been seen. We're talking about cocaine, narcotics, billions and billions of dollars. And, believe me, no one should have a part of that kind of money.

Mr. BROWN. Mr. Congressman, I couldn't agree with you more. All I can tell you is that we at Bank of Boston feel that we run a very ethical bank. We have admitted mistakes, but our intentions are not that.

Chairman ST GERMAIN. Mr. McKinney.

Mr. MCKINNEY. I'd like to just follow through with my good friend from Chicago. I think there's something that is very important. It's one thing when organized crime is preying on the day-to-day human weakness of gambling or prostitution, or things of that



sort, but when they're dealing in drugs and the money is coming from drugs, they are destroying our society, not just preying on its weaknesses.

Mr. ANNUNZIO. One is a service and the other is destruction.

Mr. MCKINNEY. You paid a fine. And following through on my friend's question once more. For example, if your bank wrote me a letter at home and said, "We're going to have to hold your pay-check for 6 days to get it cleared." And suppose my wife left it sitting on the carseat, which she's been known to do and I didn't see it. I merely went on and wrote my first of the month checks while thinking there was still something left.

Check No. 1 and check No. 2, we didn't pay a thing. But if I overdrafted, which I would be doing because my paycheck hadn't been credited; for check No. 3, I paid \$12.50; for check No. 4, paid \$12.55; for check No. 5, I paid \$12.56; and so on.

Are you aware of the fact that this law requires the type of fine you have paid for every single violation, every day of the violation.

So what we're saying here is, and I have to agree with my friend from Chicago, the depositor is going to pay the \$12.50 for every check that comes around. Now nobody wants to wipe out the Bank of Boston, but in fact you get off easier than your customers. I did a little fast mathematics this morning and we could have really hurt you with the fines that could have been and should have been charged.

So it's fine to sit there and say in fact that you have paid a fine. But I would suggest that whatever plea bargaining went on was, in fact, the most liberal and most generous type that you could find to, in fact, be able to really pay what you simply could have paid for 1 day's worth of violations. Correct?

Mr. BROWN. Do you want a response from me, Mr. McKinney?

Mr. MCKINNEY. I'm suggesting that you have brought up the fact that the Bank of Boston has paid a fine, and you have said it. In truth, you have. And you have said it, that you have paid a heavy fine. I just think we really ought to be on the record in saying that you have actually in the long run paid a very light fine for what more than likely has taken place.

Mr. BROWN. Congressman, you know there was absolutely no intent to fail to implement the regulatory change. If there'd been intent, I think that might have been one thing. But, obviously, there was no intent.

Chairman ST GERMAIN. Mr. Brown, the fellow or the woman who writes checks and deposits a check in your institution—the teller doesn't tell them, "Well, you've got to wait 2 weeks for this check to clear, or 10 days," as Stu said. So the depositor then proceeds to write 20 checks to pay their bills; right? Do you think they intend to execute overdrafts? No.

Therefore, because they don't intend to, do you say, "Well, we're going to forgive you. We won't charge you for those overdrafts." Do you let them plea bargain?

Mr. BROWN. Mr. Chairman, I think that our charges are very much—

Chairman ST GERMAIN. You're not answering the question. My question is: Do you let them plea bargain? It's not their intent to write a check before you clear the check that they deposited.

Mr. BROWN. They don't have the misfortune of being charged by the Justice Department.

Chairman ST GERMAIN. You don't take the \$12.50 from a senior citizen who is getting \$300 a month for an overdraft or, let's say, \$65 or so, for five overdrafts? You don't think that that's more serious than paying a \$500,000 fine to the Justice Department?

Mr. BROWN. I'm sure it's serious, Mr. Chairman.

Chairman ST GERMAIN. It's very serious. Despite the fact that they don't intend to do this, do you forgive them if they don't intend to do it?

You don't, do you?

Mr. BROWN. It depends on the circumstances. Sometimes, we do.

Chairman ST GERMAIN. Oh, really?

Mr. MCKINNEY. Let me ask an auxiliary question, following through on that. What would the bank expect to make, Mr. Brown, from the \$1.2 billion and the handling of such funds that we were discussing?

Mr. BROWN. Congressman, I told you earlier, this is one of the services, in addition to other services, that we provide to correspondent banks. I said I believed the amount was around \$1 million over a 4½-year period. This represents the combination of giving them credit for balances and fees.

Mr. MCKINNEY. We had an interesting thing happen in this country about 3 years ago in the State of Florida, in Miami. A judge became so incensed with a cocaine and heroin dealer who had been caught with 14 million dollars' worth of street goods that he'd put the bail at \$1.4 million. It was paid in 42 minutes. Obviously, it didn't mean much, \$1.4 million.

So let's put bail at the street value of the drugs involved. It seems to me, in other words, and I don't want to belabor the point, that if the bank makes \$1 million with or without intent, it's made some grievous mistakes and it pays a \$500,000 fine. I don't consider that excessive, in fact. There's still a net profit of half a million dollars from the whole operation.

I would say, to give you a light moment, that I've spent quite a bit of time looking at the Treasury forms that are necessary to be filled out. They are, without question, the most abysmal forms I've ever seen. When I had to ask myself honestly over a cup of coffee in the morning if I'd known what to do with which form and which one was filled out under which circumstances, I probably would have filled the wrong one out.

But I'd also suggest that I'm simply a history major and a nonlawyer and I don't have a staff that averages over 24. So we don't have the ability of a bank. So I'm going to leave the intent situation alone. There are a great many of us here, I think, including the chairman, who feel that the financial community in this country is in total chaos. That rather than changing in an orderly process, it is changing by the whim and will of these regulators we now have, who seem to feel if it ain't said in law, do it by administrative actions all over the place.

You can change the whole banking world with one court decision in Massachusetts, by State legislatures all going off in their own direction. And every time this committee sits down and tries to say, "OK, the banks have got their act in order, let's see if we can't



do something meaningful," we pick up the paper and there's Penn Square. We pick up the paper and there's Continental Illinois. Then we pick up the paper and there, by God, is a bank I've always considered the height of New England, steadiness in the land of steady habits, the Brahmin Bank of the World.

I guess my disappointment is that when I was in the service, I was told that RHIP [rank has its privileges]. But I was also very severely told, RHIR [rank has its responsibilities]. And I'm just not convinced by this testimony.

I simply state that I will be asking the chairman to see if there's anything we can do to make it clear that the last place that organized crime can get any comfort with intent, or without intent, is through the financial institutions of this country. I would make it public right here that I don't feel that banks are the only problem. I, for one, will be taking a very hard look at our securities industry to see what they're doing.

Chairman ST GERMAIN. Mr. Wiley, did you go to Harvard Law?

Mr. WILEY. Harvard Law School, Mr. Chairman.

Chairman ST GERMAIN. I went to BU Law School, and they had a thing up on the wall—"Ignorance of the law is no defense or excuse." How about intent? If you don't have the intent, does that absolve you, Mr. Wiley?

Mr. WILEY. Not necessarily. It depends how the law is constructed.

Chairman ST GERMAIN. You're a wily one. Mr. Vento.

Mr. VENTO. Thank you, Mr. Chairman.

Mr. Brown, you indicate in your testimony that you paid a heavy fine with regard to this and implied, on certain ground, that it was cleared up, but the question arises, the same one that Mr. McKinney raised, he said \$1 million in earnings vis-a-vis these cash transactions.

Do you have any idea what the profit is that you've earned from this \$200 million in transactions that you believe were exempted, that should not have been exempted, that you now, in retrospect, find were improperly exempted? The profits that the Bank of Boston made on such exemptions or the handling of such money, when you properly should have been reporting it?

Mr. BROWN. I'm not sure, Mr. Congressman.

Mr. VENTO. What I am trying to do——

Mr. BROWN. Are we in the North End or in the bank-to-bank transactions?

Mr. VENTO. I am dealing with both. You can separate them if you like, but you've obviously discovered on review that there's been additional transactions that have been made in review of your records, it's interesting that you believe should not have been exempted.

Can you give the committee any figures?

Mr. BROWN. No, offhand, I don't know.

Mr. VENTO. Do you think it would be more than \$500,000 or less?

Mr. BROWN. Substantially less. We're talking about \$1 billion and \$1.2 billion. If we're talking about another \$100,000, it wouldn't be a great deal.

Mr. VENTO. So you think the fine you paid is actually more than what you've earned by handling these cash transactions?

Mr. BROWN. Mr. Congressman, I didn't say that.

Mr. VENTO. What did you say?

Mr. BROWN. I said I thought we had paid a heavy fine, and we had no intent of breaking the law.

Mr. VENTO. I don't think you went to court, so they never really determined that particular aspect. There were no criminal charges brought, were there? I mean, were there any tried? There was no trial?

Mr. BROWN. No, there was no trial. We pleaded guilty to failing to file.

Mr. VENTO. That was fine, but what is the profit that was earned by virtue of the transactions for failure to file?

Mr. BROWN. Approximately \$1 million.

Mr. VENTO. So in other words, you paid a \$500,000 fine. Do you think it would be appropriate, do you think that really you should have been permitted to profit from those transactions?

Mr. BROWN. I'm not sure where you are, Mr. Congressman. That's part of our normal business, we're in the international correspondent banking business, as are most of the other major international banks in the world, and that kind of business continues. And yes, we were entitled to a profit.

[In response to the request of Congressman Vento, the following information was submitted for the record by Mr. Brown:]

#### FOREIGN CURRENCY TRANSACTIONS

At various points during the Subcommittee hearing, we were asked about the amount of profit realized by the Bank on our international bank-to-bank currency transactions. Our responses to these questions incorrectly suggested that we recognized a profit of approximately \$1 million on those transactions. Rather, the \$1 million figure represented the approximate amount of gross revenue, exclusive of related overhead costs and other expenses, attributable to all currency shipments to and from foreign banks over the five year period of 1980 through 1984. That gross revenue included both service fees (approximately \$220,000) related to the actual shipments as well as internally assigned credits (approximately \$975,000) for balances maintained by the foreign banks at Bank of Boston.

Based on that estimated gross revenue and on our estimates of the normal costs associated with such bank-to-bank transactions, it is clear that our profit on the currency shipments to and from international correspondent banks was substantially less than the \$1 million referred to at the hearing.

Mr. VENTO. Mr. Brown, did the Bank of Boston participate in the development of the Treasury regulations with regards to the new secrecy laws that were promulgated in the early 1980's? Did you participate either directly or indirectly?

Mr. BROWN. I don't recall.

Mr. VENTO. Do you belong to a trade association, the American Bankers Association?

Mr. BROWN. Oh, yes.

Mr. VENTO. Did they participate?

Mr. BROWN. They did; yes.

Mr. VENTO. That would mean you participated indirectly.

Mr. BROWN. As a member of the ABA.

Mr. VENTO. Do you have executives in your bank that serve on the boards or the governing bodies of the ABA?

Mr. BROWN. I have never served on the ABA Governing Board. I think we may have at one time or another had one or two officers, but I can't recall.

Mr. VENTO. One or two?

Mr. BROWN. None in a very high capacity within the ABA.

Mr. VENTO. None serving on any committees associated with this particular legislation or legislative initiative?

Mr. BROWN. Not to my knowledge.

Mr. VENTO. Not to your knowledge, but it would not be unusual. I would think a bank of that size would be a very active participant in your State and national organizations.

Mr. BROWN. Well, if we had been asked to serve on the committee, I am sure we would have.

Mr. VENTO. Are any of the other witnesses at the table aware of your involvement with the trade association or other groups that indirectly or directly are involved with the promulgation of these regulations?

Mr. Colbert, are you aware of any?

Mr. COLBERT. No.

Mr. VENTO. You're not aware. Mr. Wiley, were you involved?

Mr. WILEY. No. I don't believe that any officers of the bank were actively involved in the development of those regulations.

Chairman St GERMAIN. Would you let me have a second on that?

Mr. VENTO. I'd be happy to yield.

Chairman St GERMAIN. Mr. Brown, you're the 20th largest bank in the country, aren't you?

Mr. BROWN. Somewhere around 16 to 18, yes. It changes almost every year.

Chairman St GERMAIN. You're a big business. You're a big wheel on the spectrum of the ABA.

Mr. Vento, on November 29, 1979, the American Bankers Association, Federal Agency Relations, Federal Administrative Counsel John Gill, I don't know if he knows Mr. Wiley, said there were many misstatements on the proposed regs. He said our association is the representative of 13,107 full service banks. Fully 90 percent of the Nation's banking industry. You are not aware of the statement by the ABA relative to the rates being proposed by the Treasury that were subsequently issued?

Mr. BROWN. We probably were at the time, Mr. Chairman.

Chairman St GERMAIN. They have been considered and discussed in the "Report of International Currency Transactions."

Mr. BROWN. I might not have read that particular issue.

Chairman St GERMAIN. Mr. Vento, you know what disturbs me? They come before us, the ABA and say "We represent 13,000 institutions," see. So you say to yourself, "Well, by God, all my banks in New England, this is their testimony."

So you're telling me, Mr. Brown and Mr. Wiley, that the ABA did this without your knowledge, and maybe you didn't agree with what they said about these proposed regulations.

Mr. BROWN. Mr. Chairman, they don't check with us, unless we serve on particular committees.

Chairman St GERMAIN. Therefore, when they say they represent 10,000 or 13,000 institutions, we should turn a deaf ear and say, "Well, maybe 5 or 6 people got together and made this decision?"

Mr. BROWN. Of course not.

Mr. VENTO. Mr. Chairman, it's not my intent—I mean, Mr. Brown, you pay some dues or fees to the ABA, in other words, as a



trade association. I mean, you think you're useful, I guess. You are a member of that organization, if we're not misinterpreting.

So it isn't my intent to get into that, but I imagine it's quite substantial. A bank your size would need the services of a trade association, and probably in this instance, you were not paying attention to what they're doing. I certainly don't fault them. I think they're actively involved, and I think it's necessary. I think they are necessary, in terms of trying to facilitate participation, but I think it's regrettable that they are off in this particular instance doing this work and this involvement without, obviously, your knowledge or any participation, especially considering your position in the economy and the financial community of this country.

Mr. BROWN. This is no excuse for us, but quite obviously, you know, a good percentage of large banks have failed to make reports too. That doesn't absolve us of anything, but it does show that we weren't aware of the need to report and many others were not aware of it, but I can't tell you why.

Mr. VENTO. I don't know. We're looking at the fact that you're literally bombarded with stimuli, information pointing this out. This is not some small minuscule issue that is irrelevant to the nature of your business. The point is, it's one thing not to have reported it, but then to look over the nature of the bank and the types of transactions that have been made, I think there is other information here in the exhibits that I see, and then your own testimony that indicates that there is plenty of opportunity and that there is actually resistance in some of your branches to actually remove these two real estate companies from the list. They actually resisted that, and they did so successfully, apparently, until finally, it became an alleged violation, an admitted violation. You actually resisted the efforts, or at least indirectly, someone in your bank resisted it.

So is that the attitude? To resist this type of thing, to just dismiss this as being in Federal regulations?

Mr. Brown, I note your support for new legislation on various initiatives. Would you support a considerable increase in the Comptroller of the Currency and the other regulators' capacities to deal with large banks? Maybe the problem is, there are just too many big banks. They're so big, they just don't know what they're doing any more. They can't control what is going on. That is a fear that many of us have, as we see the nature and direction that things are moving.

Would you support a more adequate regulatory structure to deal with and do the job that apparently you feel they should be doing? I note there's a sort of veiled suggestion here that the Comptroller of the Currency and the other regulators are the ones, indeed, who are responsible, because they didn't whip you into shape. That is inherent in your statement, whether you meant it or not. It's there, and I think it's inappropriate.

Mr. BROWN. I didn't realize it was in my statement. We have absolutely no intent to blame, and I have repeatedly stated, we do not blame the regulators. I have repeatedly stated in all of my public statements that we failed to pick up the change, and we carry the full responsibility. Though I have been asked many times, I have never blamed the regulators.

Mr. VENTO. Would you support a substantial increase in the capacity of the regulators to do their jobs with respect to this and other activities?

Mr. BROWN. Yes, I would support whatever is necessary. I just don't know the magnitude of what they need.

Mr. VENTO. Mr. Chairman, I think it's an area where we, as a committee, can reconcile and do something.

Thank you, Mr. Chairman.

Chairman St GERMAIN. You say Mrs. Cushing took an early retirement. Your internal auditors, did they take an early retirement?

Mr. BROWN. The head of our auditing department did not. He's still with us. He's now head of our human resources department. A little over a year ago, he shifted jobs.

Chairman St GERMAIN. We are going to get back to that when my next period of extensive questioning comes.

Mr. McCollum.

Mr. McCOLLUM. Thank you, Mr. Chairman.

Mr. Brown, at any time, have you had a personal conversation with Gloria Cushing about the Huntington and the Federal exemptions and the exemption lists?

Mr. BROWN. I have not.

Mr. McCOLLUM. Mr. Wiley, have you ever had a personal conversation with Gloria Cushing about Huntington Realty and Federal?

Mr. WILEY. No, I have not.

Mr. McCOLLUM. Mr. Dormer, have you at any time had a personal conversation with Gloria Cushing about Huntington and Federal and their exemption lists?

Mr. DORMER. No, I have not.

Mr. McCOLLUM. Mr. Colbert, have you ever had any conversation with Gloria Cushing about Federal or Huntington Realty?

Mr. COLBERT. Yes, I have.

Mr. McCOLLUM. When did that take place?

Mr. COLBERT. Sometime after May 5, 1983.

Mr. McCOLLUM. What did she tell you about how why she requested that they be put on the exemption list?

Mr. COLBERT. Very much as Mr. Brown indicated earlier. She felt these companies were accepting money from consumers, from rooming houses, for payment of first and second mortgages in cash.

Mr. McCOLLUM. Did you ask her about any of your knowledge about any of the principles of Huntington or Federal?

Mr. COLBERT. Yes, I did.

Mr. McCOLLUM. What did she say?

Mr. COLBERT. She said she'd known them for years.

Mr. McCOLLUM. Did she know that the Angiulo family was associated and related to Huntington and Federal?

Mr. COLBERT. Yes, she did.

Mr. McCOLLUM. Did she know that the Angiulo family was reputed to be an underground and Mafia figure?

Mr. COLBERT. I don't believe she stated it that way. I think she knew that they had a lot of power in that area. They were local characters.

Mr. McCOLLUM. Did you question her at all about her judgment in this case? Knowing about the Angiulo family relationship and her request?

Mr. COLBERT. Yes, I did.

Mr. McCOLLUM. What did you ask her?

Mr. COLBERT. I asked her if she had done that. She explained, as I've explained earlier.

Mr. McCOLLUM. Did she tell you they made a request to her for the Exemption List, or did she just volunteer out of the goodness of her heart to put them down.

Mr. COLBERT. She did not tell me that.

Mr. McCOLLUM. Did you ask her that.

Mr. COLBERT. No, I did not.

Mr. McCOLLUM. Do you know, Mr. Colbert, if, at any time Gloria Cushing has given a written statement or affidavit with respect to the issues I am just asking you about, either to you or any of the investigators for the bank or to anyone else, to your knowledge?

Mr. COLBERT. I believe she has. I have no specific knowledge of that.

Mr. McCOLLUM. You have not seen such a statement.

Mr. COLBERT. I have not.

Mr. McCOLLUM. Are you aware of anyone who you believe asked her to put it in writing?

Mr. COLBERT. I am not sure who would have asked her, but I know there's been an ongoing investigation.

Mr. McCOLLUM. Would it have been normal practice for somebody in the bank investigation or auditing system to have asked for a formal statement in these conditions?

Mr. BROWN. Mr. Congressman, we received the subpoena in 1983. This was turned over to our legal department, and at that point I didn't feel it was appropriate for me to discuss it directly with her, because obviously she was under investigation as a result of it.

Mr. McCOLLUM. Have you ever seen a legal department affidavit or statement that she gave?

Mr. BROWN. No, I haven't.

Mr. McCOLLUM. Have any of you ever seen a statement Gloria Cushing gave in writing to your legal department or anyone else?

Mr. WILEY. I'm not aware of Mrs. Cushing having written a statement of her own. I do know that our external counsel who is advising us in this manner interviewed Mrs. Cushing on several occasions.

Mr. McCOLLUM. Who are your counsel?

Mr. WILEY. Messrs. Ropes and Gray of Boston.

Mr. McCOLLUM. I have a question, Mr. Brown, unrelated to this. I appreciate—despite the fact that the focus of this testimony is certainly on another area—the fact that you did make comments in your statement indicating support for changes in the laws regarding money laundering and mentioning my bill, specifically.

One of my provisions in the legislation I have introduced deals with the Right to Financial Privacy Act. Part of that is because right now the Right to Financial Privacy Act does not protect the banks nor allow them to discuss information on customers with Government agencies, if they suspect that people might be involved



in some violation of the law. It does allow for notification of suspicion, but it does not allow for the outright disclosure.

The legislation I've introduced would change that and would provide for the disclosure to be specifically allowed and for the banking institution involved to be protected from civil lawsuits for disclosing this information.

Have you looked into this and, whether you have looked into it or not, do you think a change of this nature would encourage institutions, such as yours, to come forward more readily and disclose information that might be important to either the FBI or to the Treasury or someone else?

Mr. BROWN. Mr. Congressman, that's one area we spent a lot of time on in your bill, as well as in some of the other bills. We have also, I think I told you earlier, introduced a "know your customer" policy, and we believe that there may be some changes that should be made in the privacy area, and support that part of your bill, yes.

Mr. McCOLLUM. Thank you very much. I yield back my time, Mr. Chairman.

Chairman ST GERMAIN. Mr. Colbert, are you Mr. Stoddard Colbert?

Mr. COLBERT. Yes, Mr. Chairman.

Chairman ST GERMAIN. You were at the bank in 1980?

Mr. COLBERT. Yes.

Chairman ST GERMAIN. Do you remember your interoffice communication to the tellers in charge of telebranching?

Mr. COLBERT. Yes, sir.

Chairman ST GERMAIN. The one that says, "Exemptions from reporting any transaction in the reasonable and customary conduct of the business customer in the following instances may be exempted"?

Then you conclude by saying, "Each office should submit new letters listing customers who are exempt from large currency transaction reports. These letters should include all the information required in paragraph B, record of exemptions granted, the type of transaction and dollar limit of exemption, reason for exemption."

Right? That was your letter?

Mr. COLBERT. Yes, sir.

Chairman ST GERMAIN. That is 1980. The Angiulos were still on the list in 1983.

Did you follow up on this letter with Mrs. Cushing? Did she ever provide this information to you?

Mr. COLBERT. Not personally.

Chairman ST GERMAIN. Did she provide it to anyone?

Mr. COLBERT. She had conversations with Mr. Cox.

Chairman ST GERMAIN. This says each office should submit new letters.

Is that a conversation or a letter?

Mr. COLBERT. She did submit a letter.

Chairman ST GERMAIN. Where is it? Nobody in your bank has been able to find it. We have been looking for it.

Oh, this is July 29, 1980. It is requested that the following account be placed on the exempt list for reporting large currency transactions, Huntington Realty and Federal Investments. No reasons. That is it.

Was that in response to your July 1980 memorandum?

Mr. COLBERT. No, sir.

Chairman ST GERMAIN. Did you followup on this and ask Mrs. Cushing to give you the necessary information?

Mr. COLBERT. No, sir.

Chairman ST GERMAIN. Why not?

Mr. COLBERT. I delegated that to Mr. Cox.

Chairman ST GERMAIN. Did you then ask Mr. Cox to followup?

Mr. COLBERT. I delegated that responsibility.

Chairman ST GERMAIN. Did he get a response from Mrs. Cushing?

Mr. COLBERT. I don't believe he did.

Chairman ST GERMAIN. What did you do about it?

Mr. COLBERT. I didn't know about it until May 1983.

Chairman ST GERMAIN. You let 3 years go by?

Mr. COLBERT. I did not know about it.

Chairman ST GERMAIN. This Mrs. Cushing, were you guys afraid of her?

Mr. COLBERT. No.

Chairman ST GERMAIN. Boy, it sounds that way to me. Mr. Cox obviously was afraid of her. Mr. Cox is in bad health. That is why he is not here. It sounds like you were afraid of her, too.

Is she a big woman?

Mr. COLBERT. No, Mr. Chairman.

Chairman ST GERMAIN. Why was she given such special privileges?

Mr. COLBERT. I was not aware of this until May 1983.

Chairman ST GERMAIN. If you are not aware of something, you can forget all about it and pretend it doesn't happen? Is that it? Just leave the room?

Mr. Frank?

Mr. FRANK. Thank you, Mr. Chairman. I would like to follow up on that.

I would like to say, except for the statements made, I don't think the bank with regard to any international bank-to-bank transactions, at least until opportunity led it elsewhere, I thought the bank was a reasonable and useful player of the economic game. I share many of the bank's goals as to where public policy should go, and that is one of the reasons I understood.

But I want to start with regard to Mrs. Cushing. There have been questions about whether or not she knew the Angiulos owned all that property. I think it is a matter of public record that the Angiulos were themselves in and out of the bank, they being careful managers that don't always entrust large amounts of cash to subordinates, and I think it was clear we ought to be very explicit. Mrs. Cushing knew that she had granted the Angiulos a very special privilege; namely, of bringing in large amounts of cash.

Let me ask one thing—and I don't think Members of Congress ought ever to hide behind immunities—Mrs. Cushing had to know that that money had at least in part some illegal generation. There was a conscious abetting of a criminal enterprise.

It is inconceivable to me that an individual sufficiently knowledgeable and responsible who held that position in your bank could have been in the North End for all that time and have watched



Jerry Angiulo and his brothers bring sacks of cash in and out of the bank and think that she was really dealing with first and second mortgages only. That is a very serious problem, and I am distressed that not more has been done to follow that up.

I am just going to tell you, in 1978 or 1979, a bit earlier, I was a State representative. Part of my district in Boston included the Kenmore Square area, and we used to get notified of zoning appeal requests. I got one that said "Petition to Change a Hospital into a School," petition of Angiulo, Jerry.

My immediate response was to call the police superintendent, John Doyle, and ask him what it was, just what Jerry Angiulo was proposing to do to people in my district.

It is inconceivable to me that people in that neighborhood—people who lived on Bay State Road, miles away, were very nervous when they heard about that—so it is inconceivable to me that this was an honest error or poor judgment. I think not enough has been done to deal with this particular situation, and I want to go beyond that into the questions.

That is a more glaring and serious error, and we sometimes are, all of us, guilty of too often glamorizing organized crime figures. They are not people who deserve to be glamorized. They are bad people who do bad things, and it is distressing to have them, I believe, consciously aided in this way and to have insufficient follow-up.

And I can't accept the argument—I don't pin you on this one. It is the lawyer's disease. While the lawyers were investigating it, no one else talked. More coverups are perpetrated on the basis that while the lawyers are here we can't talk about it.

Insufficient attention has been given, I believe, by the bank, by prosecutorial staffs and others, but I want to go a step beyond that. Here is what I am bothered about.

With regard to the regulations, I don't think there was any conscious effort with regard to international bank-to-bank transactions to cheat or deceive. The problem we have is this: I want to see the free market get great scope in the financial area. I think we will all benefit.

I think the Bank of Boston has helped the community and will continue to if we move in that direction. But only—we can only move that way if we have some assurance that there isn't going to be abuse. We have got to know if we can have a general movement toward free enterprise in the market, but that the safeguarding regulations we have put in were not simply tolerated and dealt with in kind of a minimalist fashion.

There has got to be a showing that, to be honest, Mr. Brown, I don't think we have yet seen, that the financial institutions will accept that a deal is being made. In return for greater freedom in general to do your business, there will be a wholehearted enthusiasm about the regulations for safeguards.

The regulations are regarded as something of a nuisance, as something of an extraneous matter, and they didn't get the top attention of the bank. I accept that. I don't think you were knowledgeably failing to do anything. You were working on development, you were working on your economic issues, understandably, but that was dealt with at too low a level.

Those were considered nuisances to be tolerated. I don't think there was criminal intent, and I have to say with regard to the fine, it seems to me clear that if the determined effect—if there had been no fine at all, these past 3 hours, it seems to me, would have certainly been enough of a deterrent. I can't imagine anybody voluntarily wanting to get into this.

So I think there has been a lot of deterrence here, but it is not enough for us. What we need for you to tell us is two things: One, that the financial institutions themselves will recognize that they have got to accept these regulations, and let me add that I have a sense—I am glad Mr. Stankey is here—that the Comptroller of the Currency was sort of complicit with you in not treating these all that seriously.

I see, as I look at what has happened here, a much more serious effort to enforce these by the Treasurer than by the Comptroller of the Currency. The Comptroller of the Currency seems to me to have acted along with the banks as though this was something to keep us happy over here on the legislative side and maybe some on the executive side, but that wasn't the real business of banking and that you and the customers were the real business of banking.

We are going to move in the direction that you and I want to move in, so the bank can, I think, continue to perform economic services, but we are going to have to do two things. The regulators are going to have to be serious, and we are going to have to know that the regulations are not simply treated in a minimalist fashion, and I think it is legitimate for us to ask a couple of things.

First, what are the new procedures? I don't want to continually go back over what you didn't do. What are the new procedures that are going to involve top bank officials on a regular and ongoing basis in making sure these regulations are conformed with?

And, two, how can we make them work better?

I am going to ask you—not just today, but that you submit to us, or you can put it in the text—you know your business better than we do, and we need you to tell us how we can allow you to go ahead with the basic business of banking, which will be economically beneficial if it is done in a more free capacity, in my judgment, but at the same time how do we protect against these abuses? That is the thing that we have to focus on. How do we now go forward in the direction I would like to go in without this being—I just want to add, you are going to have to show the consumer some of that consideration, too.

But that is what we need to have. We need from you and the regulators a kind of joint effort, that you tell us how you work jointly to put into place the kind of regulations and how you are going to go out of your way to comply with them. Otherwise, we are not going to go in the direction that I think we ought to be going in.

I would like you to respond to that now and with a followup.

Mr. BROWN. Thank you, Congressman. I appreciate your comments. I know that the events of the past couple months will cause the banking industry to concentrate on regulation, and it is going to be foremost in their minds. Certainly, it is at the Bank of Boston.



We have almost completed the development of a system in our bank that will not only deal with the Bank Secrecy Act but will deal with all other compliance items as well.

All of our procedures under the new system are being changed. Each line unit will have a compliance officer who will be checking constantly to see that the rules and regulations are being followed. In addition, at the corporate level, reporting into the executive group will be a corporate compliance officer who will be working regularly with the line compliance officers.

Mr. FRANK. At what level will that officer be? How important will that officer be?

Mr. BROWN. We haven't selected the officer yet, but he will be reporting to Mr. Wiley.

Mr. FRANK. Will he or she be the equal at least of the people whose compliance he or she is responsible for?

Mr. WILEY. Yes. He would be at least equal to them, and I think in practically all cases senior to them. It would be roughly the senior vice president level, the same level as our general counsel and our other principal senior staff officers.

He would very definitely have the necessary backing and support and the clout to accomplish what has to be accomplished.

Mr. BROWN. In addition, all of this has to be cleared with the law office. The law office is going to have to take a more active role, and on the corporate compliance committee, we will have at least two lawyers on that committee.

We have also changed the structure of the audit department. Instead of simply verifying policies and systems, the audit department will now check to see if the units are complying substantively with what the rules are.

Mr. FRANK. One last comment if I can, Mr. Chairman, and that is this—and I hope you are going to add to this in the future. I don't think that I am blood-thirsty, but one of the things that is greatly discomfiting people—and we saw some of this today—is a very serious mistake was made, I think basically not with ill intent, but a serious mistake was made—although I do think there was ill intent with regard to the North End branch situation.

The problem we have is this. There has been some unpleasant publicity. These haven't been the best weeks and months for people at the bank, but in an official capacity no one has been made to be responsible. We have a lot of people inside here. We are told that the people have to be responsible for their own condition. We are told that if you are out of work maybe it is your own fault.

We have heard a lot of preaching from people in high places in the Government and outside in the economic system about people taking responsibility for their own actions.

One of the things that distresses people, I think, is that some very serious mistakes were made, and no one, no one has been in the least personally inconvenienced. The bank paid a nominal fine, but no one has been disciplined and no one has been fired, much less charged, and it really is a serious problem for the average working individual who is told, take responsibility for your actions. We are going to crack down on discipline, we are going to fine you, we are going to do this.

To see something like this happen—I am not asking for retroactivity. I am asking that part of your procedures be that individuals who are charged with the responsibility for following these regulations understand that there will be discipline of a very stern sort if people fail to carry them out because the penalty for being caught at doing something wrong can't simply be a promise not to do anything wrong in the future. There we have got no deterrent. Unless you want to start sending everybody to jail, which I don't think we want to do, some of that is going to have to come from some internal discipline, which seems to me to have been totally lacking.

In other words, I think people would make other mistakes. If they had made a series of really bad loans, I think they probably would have been treated more harshly by the bank than if—like the Angiulos carrying sacks of cash into the North End branch, which you have told me. That I think is unacceptable. That is one of the things I think has to change.

Mr. BROWN. Part of our new compliance program will include disciplinary measures. As far as this matter is concerned, we still have our own internal investigation going on to determine how responsible certain employees should have been and how they should have acted. We will be reporting the results to our independent committee and outside board, and we will make our recommendations at that time.

We would not want to make a decision about someone, in a sense, in a vacuum; everyone had a superior over him, and we must also decide how responsible is his superior for the act of the individual?

We are dealing with human beings, and we will act responsibly, but we want to make sure that we have all the evidence in-house before we take any action.

Mr. WILEY. Congressman Frank, let me just add one point in response to your question.

Just as several years ago we added a specific question to our annual performance appraisal form for officers, as to the person being appraised carrying out EEO and affirmative action responsibilities during the course of the year, we are going to be adding a specific question to our annual appraisal report from this point forward so that both the managed and the manager will have to focus on what the particular person has or hasn't done in the regulatory compliance area.

So it would be a part of the regular appraisal of performance, which will lead to evaluations and appropriate action under the circumstances.

Mr. FRANK. I hope you put all regulations in there, not just one at a time.

Mr. WILEY. Absolutely. It is compliance with regulatory legal requirements generally.

[In response to the request of Congressman Frank, the following information was submitted for the record by Mr. Brown:]

#### GENERAL REGULATORY COMPLIANCE

Congressman Frank asked us to provide additional information on the steps that the Bank was taking to ensure future regulatory compliance. In response to that request, the Bank is enclosing with this letter a summary of its policies and proce-

dures on general regulatory compliance. As you know, Bank of Boston conducts its activities in almost every state of the United States and in over 38 countries around the world. Naturally, we are subject to a very substantial number of laws and regulations promulgated by local, state, national, and foreign governments and by governmental agencies of all kinds. As I stated at the hearing, we believe that we have basically done a thorough job over the years in meeting our compliance obligations throughout our organization, but we are taking this opportunity to strengthen our firm commitment to improving our compliance efforts with both the letter and the spirit of all applicable laws and regulations as an essential part of preserving and enhancing our reputation as a respected and ethical financial institution. Despite our currency reporting failures, I am proud of the countless Bank officers and employees over the years who have devoted diligent and consistent efforts to regulatory compliance, and I am confident that all of us are addressing our compliance responsibilities with renewed determination.



## BANK OF BOSTON CORPORATION

Summary of Regulatory Compliance  
Policies and Procedures

Bank of Boston Corporation ("Bank of Boston") believes that basic compliance responsibility should continue to rest with line management. Because the officers of the various business units are most familiar with the activities affected by applicable laws and regulations, those officers are best suited to monitoring their units' activities in light of various regulatory requirements. Each unit will designate a compliance officer to assume overall responsibility for designing, implementing, overseeing, and verifying the effectiveness of compliance programs within that unit. In most instances, it will also be necessary to develop written compliance procedures for the individual unit.

To assist the business units in their compliance efforts, Bank of Boston has established a Corporate Compliance unit. This central unit will provide coordination and consistency in the compliance efforts of the various business units of Bank of Boston.

Summary of Compliance Program

Bank of Boston's comprehensive compliance program addresses all aspects of the regulatory compliance process. Although Bank of Boston is developing detailed procedures to meet the specific needs of its various business units, most compliance activities will be conducted in accordance with the following general framework.

All notices of a new or modified law or regulation will be referred to Corporate Compliance. Corporate Compliance, with appropriate assistance from Bank of Boston's Law Office and other corporate center units, will assess the impact of the new law or regulation on Bank of Boston's present and proposed business activities and disseminate the information to the appropriate business unit compliance officers who will develop or amend the unit's necessary compliance procedures. Corporate Compliance will also have the primary responsibility for coordinating compliance with those laws and regulations that are of corporate-wide significance.

Written compliance procedures will, as appropriate, describe training to be undertaken, designate personnel responsible for implementing the regulatory change, and outline any new or modified actions necessary to comply with the law. Bank of Boston's compliance program also includes review and oversight procedures to ensure that all necessary action is taken to implement new laws and regulations. In addition to establishing a network of compliance officers at every level of the Corporation, each member of senior management has been mandated to continue to take an active role in the compliance obligations of his or her respective business units.

Personal accountability will be stressed as part of the overall compliance effort. In the event of a compliance failure, the failure will be brought to the attention of the business unit executive, the Director of Corporate

Compliance, the Chief Financial Officer, the General Counsel, and the Chief Executive Officer. Once a compliance problem is identified, immediate remedial action will be effected. A thorough, expedited investigation will be conducted, and management will determine, based on such an investigation, what further action need be taken. To ensure that all personnel are fulfilling their applicable compliance responsibilities, annual performance evaluations will specifically include an assessment of the employee's regulatory compliance activities. A favorable compliance evaluation will be positively acknowledged by Bank of Boston, and, conversely, a negative evaluation will adversely affect an employee's opportunities.

As a general matter, Corporate Compliance will serve as a central information clearinghouse for Bank of Boston's business units. It will maintain basic compliance information, such as the principal statutes, regulations, and policies that apply to Bank of Boston's activities, the departments or units affected by such laws and policies, and a listing of individuals specifically responsible for various compliance efforts. Corporate Compliance will also assist in the arrangement of educational and support programs and will coordinate training activities when compliance matters involve multiple business units.

#### Other Corporate Center Divisions

Corporate Compliance will be supported by a variety of other Bank of Boston units that will provide additional support to those responsible for primary compliance efforts. Bank of Boston's Law Office has assigned lawyers to work directly with each unit and subdivision with compliance responsibilities. Although the individual business units have primary responsibility for compliance efforts, the Law Office will provide assistance on a priority basis to all units requesting advice on compliance matters. In addition, the Law Office has designated specific lawyers to serve as a special resource for advice with respect to each of the major laws and regulations applicable to Bank of Boston.

Bank of Boston's Audit Department will support compliance efforts through its regular and special independent audits and appraisals, a principal objective of which is to determine for the benefit of senior management whether Bank of Boston and its subsidiaries are conducting their affairs in accordance with ethical standards, sound fiduciary principles, and all relevant laws and regulations. The Audit Department will test the compliance systems in all business units for adequacy and effectiveness, including selective substantive reviews of transactions to ascertain that compliance policies and procedures are resulting in actual regulatory compliance.

The Information Systems and Services Division of Bank of Boston, which oversees the development of policies and procedures, will work closely with compliance officers in developing or modifying specific compliance policies and procedures. In addition, the Finance Division of Bank of Boston will continue to provide general assistance to all business units in maintaining adequate financial controls and in preparing financial statements in an efficient and reliable fashion.

### Emphasis on Importance of Compliance

Bank of Boston believes that a positive attitude toward compliance, rather than a mechanical set of procedures, is the true key to an effective compliance program. As a result, Bank of Boston will make every effort to emphasize to all officers and employees the importance to the Corporation of overall compliance. Through both initial orientation sessions and continuing education programs, employees will be made aware of Bank of Boston's fundamental commitment to conducting its business in an ethical and lawful manner. Bank of Boston will emphasize in all corporate-wide programs that one of the primary responsibilities of every employee is to ensure compliance with the spirit as well as the specific requirements of the law. In addition, every unit will conduct periodic education and training programs to focus regular attention on specific compliance matters.

Bank of Boston believes that the efforts described in this summary will significantly enhance its reputation of conducting a successful business operation on an ethical basis.

Mr. VENTO. What are the circumstances surrounding the retirement of Gloria Cushing—her age, her years of service, the nature of the amount of retirement that was received? Was this a perfectly normal retirement, Mr. Brown?

Mr. BROWN. She was in extremely bad health. The doctors advised her very strongly to retire, so she chose to retire.

Mr. VENTO. Her age was?

Mr. BROWN. 59.

Mr. FRANK. Was there anything wrong with her kneecaps? [Laughter.]

Mr. VENTO. Did she get Social Security and disability at the same time? It sounds to me like it is not a clear and simple answer.

Mr. WILEY. I believe Mrs. Cushing was, I think, 62 at the time of her early retirement. She retired under the regular early retirement provisions of the bank's retirement plan. There is nothing extraordinary to it. She was a longtime service employee and got whatever she was entitled to for that number of years of service.

Mr. VENTO. Thank you.

[In response to the request of Congressman Vento, the following information was submitted for the record by Mr. Brown:]

#### RETIREMENT OF GLORIA CUSHING

Congressman Vento asked about the circumstances and timing of the retirement of Ms. Gloria Cushing, the former manager of the North End branch and we indicated in response that she had taken early retirement. In order to clarify that response, I note that Ms. Cushing elected at the end of 1984 to take early retirement, and her last day of employment was January 11, 1985. Under Bank policies applicable to such early retirement elections, she received her normal salary and benefits through April 30, 1985, the month in which her 59th birthday occurred. Her standard retirement benefits took effect on May 1, 1985.

Chairman ST GERMAIN. So Mr. Brown was wrong. It is not because she was sick but because she wanted early retirement?

Mr. WILEY. But I think Mr. Brown indicated that her health was not of the best.

Chairman ST GERMAIN. When did that health problem begin?

Mr. WILEY. I personally do not know.

Chairman ST GERMAIN. Does anyone here know anything about anything in detail?

Mr. BROWN. She has had a health problem, as I understand it, Mr. Chairman, for some time, and as a result of the grand jury investigation and appearing before the grand jury, I guess the problem was exacerbated.

Chairman ST GERMAIN. Was the retirement at 100 percent of her salary; 80 percent?

Mr. WILEY. Our normal retirement for 30 years of service is approximately 60 percent of the average of the 5 final years of pay. Hers would have been discounted somewhat because she was retiring approximately 3 years early at age 62. Normal retirement is 65.

Chairman ST GERMAIN. Have you hired a PR firm since all this came about—a public relations firm—or do you use the same firm?

Mr. BROWN. Yes, we hired—

Chairman ST GERMAIN. A special firm to handle this situation?

Mr. WILEY. Not quite, Mr. Chairman. We've had a public relations firm on retainer for the past several years and have called on them for assistance.

Chairman ST GERMAIN. But right now you're using them extensively?

Mr. WILEY. Yes, we are.

Chairman ST GERMAIN. I have a wonderful firm here in Washington that's trying to bring us to court.

Mr. WILEY. Our Washington counsel is advising us in this matter. It is that law firm.

Chairman ST GERMAIN. It's a high-level law firm. I'm wondering how your stockholders feel about the fact that Mrs. Cushing, who is in part responsible for your having to hire a law firm and to pay increased public relations costs, took an early retirement. I wonder if they're going to ask questions about that.

Mr. BROWN. As you know, we just completed our annual meeting and I don't believe that any of the stockholders raised that question.

Chairman ST GERMAIN. Talking about the Angiulo brothers, do you see that blue chart? I thought we'd bring a little color into this.

The First National Bank of Boston, the Angiulos bought cashier's checks in the amount of \$300,000; are you aware of that, Mr. Brown?

Mr. BROWN. Over a period of time I think they bought substantially more than that.

Chairman ST GERMAIN. Let's look at the transaction.

Mr. BROWN. I don't know the individual transactions.

Chairman ST GERMAIN. You don't know the number of checks they bought—\$300,000 worth to purchase, with cash, a yacht?

Mr. BROWN. Oh, yes.

Chairman ST GERMAIN. Yes, that's what I'm talking about. Now, that had nothing to do with the exemption of over 10,000 normal international transactions. This is another violation, was it not, that was not reported? The purchase of cashier's checks in the amount of \$300,000?



Mr. BROWN. That decision to sell those checks was made in our branch, yes.

Chairman St GERMAIN. But it was not reported. It was supposed to be reported—another violation?

Mr. BROWN. Yes.

Chairman St GERMAIN. I'd just like to point out to you, and to the committee, that it's an interesting situation here—\$300,000 worth of checks. What does it buy? It buys a yacht—it was originally the *Georgetta*, which is now the *St. Gennaro*. It has no relationship to St Germain—*St. Gennaro*. [Laughter.]

An interesting thing, cashier's checks have bought with cash not reported, another violation. Then this boat was donated as the *Georgetta* to the Palm Beach Atlantic College. They, then, have what's known as a Council of College Resources. That's another fancy name. But what they locally are, are boat brokers. They sold the boat for \$300,000.

You know it's interesting. I had my staff make a few inquiries here, ladies and gentlemen of the committee, and it's not under our jurisdiction. It is peculiar that Palm Beach Atlanta College gets about 15 boats a year. It's a tax writeoff. They then take those boats and they use them for about a year. In fact, this boat was donated in 1978, and in 1979 the College Resources—the boat broker—started advertising it, and it was sold in 1980 to the Gennaro boys for \$300,000. Isn't that interesting? About 15 boats a year go, through this little thing.

I don't know if they're all bought with cashier's checks, but that's interesting.

Mr. Wortley?

Mr. WORTLEY. Thanks, Mr. Chairman.

Bearing in mind that you gentlemen are all under oath, have any of you gentlemen from the Bank of Boston ever knowingly been in the company of any of the Angiulos or their families?

Mr. BROWN. Did any of us know the Angiulos?

Mr. WORTLEY. Have you ever knowingly been in their company?

Mr. BROWN. I haven't.

Mr. WORTLEY. Or members of their family?

Mr. BROWN. I have not.

Mr. WILEY. I have not either.

Mr. DORMER. I have not either.

Mr. COLBERT. I have not.

Mr. WORTLEY. The Angiulo family and their businesses were pretty good customers of the Bank of Boston. They brought in a lot of cash. There wasn't any float on checks or anything else. Wouldn't you say they were pretty good customers of yours?

Mr. BROWN. Well, they were a customer of the North End branch and I think their average deposits over a period of time, were around \$80,000.

Mr. WORTLEY. Their balances or their deposits?

Mr. BROWN. That's what I mean. Sometimes they were a lot more and sometimes, of course, a lot less.

Mr. WORTLEY. Now, give me that again. The deposits that they made were \$80,000?

Mr. BROWN. Their average balances in the account were \$80,000. I understand at times they were substantially more and at times



substantially less. But over a period of years or several years, I have been informed that they were around \$80,000. It's a nice account.

Mr. WORTLEY. They were good customers.

Mr. BROWN. For a branch office, yes, they were good customers.

Mr. WORTLEY. Mr. Colbert, did Gloria Cushing ever imply or suggest in her conversations with you that the Angiulo deposits came from sources other than legitimate endeavors?

Mr. COLBERT. No, she did not.

Mr. WORTLEY. Did anybody else on your staff ever suggest that the sources of their funds came from other than legitimate business endeavors?

Mr. COLBERT. I did not know the names at all until after May 5, 1983. Since then I've learned some things about them.

Mr. WORTLEY. Are there any incentives for your bank officers or branch managers? Did the bank use a bonus-based incentive plan to generate deposits?

Mr. COLBERT. No.

Mr. WORTLEY. There were no bonus incentives for your branch managers?

Mr. COLBERT. No, not specifically related.

Mr. WORTLEY. Loans generated or deposits?

Mr. COLBERT. No.

Mr. WORTLEY. Mr. Dormer, in the international cash transfer of bank notes, is that done in-house or is it subcontracted to an outside crew?

Mr. DORMER. Are you discussing the method by which the money goes to the airport?

Mr. WORTLEY. Yes, when the money is transferred from, we'll say the Bank of Boston, to Swiss banks, the Union Bank of Switzerland located in Zurich do you, at that particular time, handle that as an in-house transfer of funds or do you hire an outside service to carry it for you?

Mr. DORMER. The outside service is hired on behalf of the foreign bank for whom we are shipping the money to take the money to the airport. They, in turn, have hired the air transportation.

Mr. WORTLEY. The foreign bank, you are saying, actually hires the individual who transports the money; is that correct?

Mr. DORMER. They retain the services of the airlines, sir. We retain the services of an armored car in Boston to bring it to the airport.

Mr. WORTLEY. So nobody, personally, travels with the funds for the airline; is that correct?

Mr. DORMER. To my knowledge, that is correct. It is carried in the cargo hold.

Mr. WORTLEY. In cash transfers, are there ever any third-party transactions included or is this all interbank? In other words, if a customer of yours wished to deposit funds in one of your correspondent banks abroad, could they transfer funds in the same shipment as your interbank transaction?

Mr. DORMER. Absolutely not. All of these transactions that we participated in, and to which we pleaded guilty, were requested by the foreign bank and we reacted on their behalf. At no point were there any individuals—

Mr. BROWN. That's correct, Dan, except for one. One went to an exchange house in Bolivia that was improperly treated as a bank.

Mr. WORTLEY. It went to an exchange house. Would you care to comment on what that transaction was all about?

Mr. BROWN. No, they just ordered—

Mr. WORTLEY. Was it to pay for a commodity, perhaps, that was being purchased in Bolivia?

Mr. BROWN. No, they were the leading money exchanger in Bolivia and they used us and then switched back to New York, we understand. They used New York, came back to us for a few transactions, and went back to a New York bank. Other than that—

Mr. WORTLEY. Mr. Brown, do you have a number of foreign transactions with many banks and many parts of the world?

Mr. BROWN. Yes, we do.

Mr. WORTLEY. How long have we been doing business with the banks over in Switzerland?

Mr. BROWN. We've been doing business with the banks in Switzerland probably going back, you know, I don't know how many years, 50, 60, 70, or 100 years or more.

But as far as our cash transactions, we started that in around 1977. And the reason we started it around 1977 is that the Swiss banks got concerned about Kennedy Airport and security. In addition, because the Federal Reserve in New York did not adequately meet their requests for cash, the principal Swiss banks switched to Boston.

We tried to supply them for a while but then the Federal Bank in Boston didn't have enough cash.

Mr. WORTLEY. Had the Angiulo family been doing business with you prior to your connections with Swiss banks?

Mr. BROWN. Yes, there was absolutely no connection between the Angulos and any of the international bank transactions, Congressman.

Mr. WORTLEY. Have you ever had any transactions with the Goathead Bank in Switzerland? It's a smaller bank in the southern part of Switzerland near the Italian border.

Mr. BROWN. I've never heard the name.

Mr. WORTLEY. You've never had any currency transfers from that bank to yours or from your bank to theirs?

Mr. BROWN. I've never heard of any.

Mr. WORTLEY. Could you check the record?

Mr. BROWN. We certainly will, Congressman, check that for you. [In response to the request of Congressman Wortley the following information was submitted for the record by Mr. Brown:]

#### CURRENCY TRANSACTIONS WITH BANCO DEL GOTTARDO

Congressman Wortley asked us to determine whether he had engaged in any currency transactions with the "Goathead Bank" located in southern Switzerland. It is our understanding that Congressman Wortley was referring to Banco del Gottardo in Lugano, Switzerland. Although Bank of Boston has had a correspondent banking relationship with the Swiss bank since approximately 1976 or 1977, we are unaware of any shipments of currency to or from Banco del Gottardo.

Mr. WORTLEY. Thank you very much.

Chairman St GERMAIN. Incidentally, ladies and gentlemen, here is a continuing report on the cashier's checks. It turns out, and we

found this out from the Council of College Resources that this was purchased with a total of 10 checks, 5 cashier's checks in the amount of \$10,000—that's \$50,000—5 cashier's checks in the amount of \$50,000. Can you imagine that—\$50,000—and that's a total of \$300,000.

Here's the interesting thing, gentlemen. Maybe you could enlighten us, Mr. Brown. The checks were numbered 43 to 47, the \$10,000 ones. The \$50,000 checks were numbered 49 to 43. In other words, No. 48 wasn't there. So when the gentleman who received the checks at the Council of Colleges, the boat broker, he called to find out what the story was on check No. 49. He asked the Bank of Boston and the Bank of Boston said, "Well, that one was signed by Jay Angiulo and it was cashed by Draco Raffaella in Geneva, Switzerland."

Interesting.

Mr. Roemer?

Mr. ROEMER. Thank you, Mr. Chairman.

To follow up on some earlier questions, quickly if I could. I know the Bank of Boston must feel humiliated by this experience. I mean, I know you must count your reputation as high as your customers and your region does, so I know this is a bit expensive. I just wondered if you'd done a more thorough job as the No. 1 person of what supposed to be the No. 1 bank, in what some people think is the No. 1 region of the country, I wonder if you've done a better job internally in finding out what happened than you display here today. It's just a thought that goes through my mind. I know you're a good manager or you wouldn't be where you are. I've got to assume that a quality organization has quality people at the top.

Today you said that you had no personal conversation with Mrs. Cushing. Today you've implied that all the transactions at the North End were like in the twilight zone, not managed by you or understood by you.

Today you said you couldn't give a single person or organization on the exemption list—you couldn't give us the number of people that remain or organizations that remained on the list. You couldn't give us a feel for the number of organizations or people that were on the list prior to its being scrubbed down.

I just wonder what happened in the Bank of Boston over the last few years. It could be that you felt this was a petty regulation. It could be that you didn't see as clearly as some others did, the relationship between cash, greed, crime, and drugs. It could be that the Bank of Boston put too high a value on profit and too low a value on the problems that face the country. It could be that. I wonder if it was.

Looking back—and I don't want to be unfair to you—but looking back for just a moment and putting all the bankers in America in your board room, what do you think went wrong?

Mr. BROWN. Well we've tried to explain, I can assure you certainly, we have never taken any Federal or State or Government rules and regulations lightly, Mr. Congressman. And this is just one we missed as far as my knowledge of the investigation and what I told you.



When the subpoenae were received, the matter was turned over to our legal department and the feeling was that I should not get directly involved in it for many reasons, and I accepted that advice.

The bank's law office conducted their own interviews and our outside counsel, Ropes and Gray, have done their own independent checking into what went wrong. They have reported to me on a regular basis.

No, I don't think the answer is we put too much emphasis on profit. Obviously, we have emphasis on profit as every institution must have today, but we certainly have had no intention of not obeying any rules and regulations. I think our record, over 200 years of complying with rules and regulations, actually—if someone would go back and take a look at that—is outstanding. We did miss this one, and it was obviously a very important one.

Mr. ROEMER. There's nothing we can do to change the history of the transactions over the last few years so I'm not going to try but I just wondered if maybe you would take the opportunity to perform a service for everybody else, those who are going to live it 1 day at a time; 1 goal at a time.

Those of us who are going to have to live for tomorrow, I wonder if you would say the words that are the most difficult words on Earth, "I made a mistake. We didn't put the highest priority on this regulation. We had it fall between the cracks. We've tried to cover it up; we've tried to sandbag it; we've tried to deny it. But the truth is, we were a party to a laundering operation and we were wrong."

Mr. BROWN. Mr. Congressman, we've got two different issues here. I have repeatedly said that, yes, indeed, we did make a mistake but I've repeatedly said this wasn't intentional, and we certainly have never tried to cover anything up.

I don't think there's the slightest bit of evidence that once we became aware of this that there was any attempt at all to cover anything up. That's as far as the bank-to-bank foreign transactions reports.

Going over to the North End branch, we have tried to give you the facts as they are, and I believe we have given you the facts. Of course, the Justice Department has made their own investigation and I don't know whether they've given you the facts or not. But we've told you here today about the way we were structured then and about the way the decisions were made.

You know, there's no way that my former chairman or I or even the president of the bank could get involved in the operation of our branch systems. He just can't; it's just impossible.

Mr. ROEMER. You have been asked several questions by my colleague and friend, Mr. Frank, and by my colleague and friend, Mr. McCollum of Florida, about legislative-type vis-a-vis this regulation, or vis-a-vis cash transactions.

I was struck by the fact in your honest answering of those tough questions that you admitted that you have not looked at the exemption list. I wonder if that ought to be part of the directives under which we have to stick our nose over into your business and ask you to manage the bank by looking personally and pledging with your initials that you've looked at each and every organization exempt from the cash requirements from this act. Do you

think that's foolish to demand that or do you think that might raise the level of awareness in your board room?

Mr. BROWN. I think the level of awareness is as high as it can possibly be. Under our new structure we have several layers of people looking at those exempt lists, testing them every 6 months, and we're voluntarily sending them to the Treasury Department.

I believe it's impossible to have another problem with our exempt list under the new structure.

Mr. ROEMER. Are you the No. 1 man at the bank?

Mr. BROWN. Yes.

Mr. ROEMER. Do you think you should look at the exempt list?

Mr. BROWN. I could look at it. There's no harm in it.

Mr. ROEMER. Just toss it off, then, Mr. Brown. The publicity is a damnation of your bank, and maybe you think it's damned unfairly. Maybe you ought to be concerned with it.

Mr. BROWN. I'd be happy to look at the exempt list.

Mr. ROEMER. Thank you very much, Mr. Brown. We all feel better. Thank you, Mr. Chairman.

Chairman ST GERMAIN. Mr. Brown, you have described in detail what you're going to do now. I listened really and truly with awe because I remember 1975, USNB, San Diego and C. Arnholt Smith, Do you recall that bank failure? Jim Smith, then Comptroller of the Currency, gave \$1 million to Haskins and Sellers for a retrospective analysis.

Among their recommendations was an early warning system. Then we got to Continental Illinois and with them too, there was an early system with the Comptroller. But, the early warning systems all failed. The million dollar retrospective analysis didn't do too much good, as we think of Penn Square, Continental Illinois, Franklin, et cetera, et cetera.

Now was this new procedure developed internally, or have you hired consultants?

Mr. BROWN. We developed it internally.

Chairman ST GERMAIN. As compared to Haskins and Sellers doing a retrospective analysis from the Comptroller.

Mr. BROWN. Yes, it is different.

Chairman ST GERMAIN. That's good because, very frankly, the Haskins and Sellers million dollar fee didn't help very much. I'm just hopeful this wonderful procedure you're developing now will work. But, people read the regs when they're changed, developed and sent to you. Don't you think your people read those papers more frequently now, and the American Banker?

Mr. BROWN. I think the level of consciousness in our institution, as far as reading the newspapers and reacting when they say something related to crime, is considerably higher than it was.

Chairman ST GERMAIN. When I went through all this and I went and watched the Senate hearings and the press reports, et cetera, I had the impression—How many people do you have in your organization?

Mr. BROWN. 16,000.

Chairman ST GERMAIN. But the top executives involved in all of this, they probably read who knows which newspapers.

Mr. BROWN. Mr. Chairman, I try to read all the Boston papers.

Chairman ST GERMAIN. Yet, those headlines there—



Mr. BROWN. Maybe I read too many.

Chairman St GERMAIN. They were missed.

Mr. Cooper.

Mr. COOPER. Thank you, Mr. Chairman. My main concern is, as with my colleagues, how we can prevent this sort of situation from happening in other banks. I worry that despite the stringency of this law that's been on the books for several years, and despite the criminal penalties contained therein, which, from a legislative standpoint, is about as far as we can go in catching the industry's attention, still, these guidelines are not adhered to.

I think the adverse publicity your bank has received has urged a number of other banks to fess up in their press releases. They all claimed they're filing voluntarily.

Mr. BROWN. I think the explanation they give in their press statements as to why they missed it are identical to the ones we gave.

Mr. COOPER. To me, the publicity you all have received has helped the cause but I worry that a year or two from now, more people will not pay attention to what's going on and we'll be back on this committee a few years from now essentially doing the same thing all over again, as the chairman has seen over his tenure on the committee.

To me, the fundamental problem is that the bank is the criminal felon in this case. The bank is the one charged. And, in theory, that's all fine and good. But you can't imprison a bank. And the so-called heavy fine that has been levied against the bank is a mere pittance. Some tiny banks in this country could bear a half million dollar fine and still pay off at the current dividend level. Your bank has paid what you describe as a heavy fine, but I don't see any impact on the institution; assuming now that as current law states the bank is being held responsible, your own statement indicates that the first quarter earnings were up 70 percent. Part of that is due to MCI stock apparently, but that's a pretty darned good first quarter. Any bank should be proud of that at any time.

I don't have information about your dividend level but have you cut your dividend level in response to this opportunist crisis?

Mr. BROWN. No.

Mr. COOPER. Have any of your directors resigned from the institution?

Mr. BROWN. No.

Mr. COOPER. You see, from a public standpoint, it's hard to detect much change or much harm caused to the institution. The only visible sign, in fact, that I see is that Mrs. Cushing, and apparently Mr. Cox, are no longer with you.

So the legal concept of holding a bank responsible for a problem like this doesn't really seem to cause much problem to you. You point out in your remarks that you received a large volume of court positive mail resulting from the experience. Perhaps this has even helped you publicity-wise. Who knows?

I know it's personally painful for you to have to go through this ordeal but we have to make sure that the other 14,000 banks in this country aren't engaging in transactions like this. It leads me to conclude that our current penalties are not enough; it's not enough to make the Bank of Boston a criminal felon.

As you say in the first part of your statement, you do not shirk from your responsibility, but we need to tag the top folks involved with more of that responsibility. I don't know whether you have children or grandchildren but I doubt right now that they view you as a felon, or as someone who could have served time in prison resulting from this.

But let's take milder examples. Has your salary increased or decreased in the last couple of years?

Mr. BROWN. It's increased.

Mr. COOPER. How about Mr. Wiley?

Mr. BROWN. It's increased.

Mr. COOPER. Mr. Dormer?

Mr. BROWN. It's done the same thing.

Mr. COOPER. Mr. Colbert?

Mr. BROWN. Done the same thing.

Mr. COOPER. Again, so far as I can tell, no financial penalty has been exacted from those who had the responsibility. You gentlemen, so far as I can judge, probably make more in a year than someone at a branch level would make in a lifetime. We, or I, don't see any impact on you.

As I say, it's painful for you to testify, but unless every banker in the country is reading those headlines and remembering them, we don't have any guarantee that the system will be changed.

So it forces me to the painful conclusion that we need to tag individual officers involved when it is a criminal felony with more of the responsibility.

Are you aware of a more serious crime in this country than a crime classed as a criminal felony? I guess there'd be capital crimes, but is there any more severe category?

Mr. BROWN. I understand that it is a very severe category.

Mr. COOPER. The most severe other than for capital offenses, to my knowledge. And, yet, still, despite the statutory language, that did not sink in at your level.

As Mr. Roemer and others have pointed out, it didn't really seem to be worthy of your attention even in hindsight, the details of these transactions.

And unless we have blue chip responsible corporations like yours paying attention to these details, as I say, I'm worried that we on this committee will be back in 1 year or 2, or 3 or 4, facing similar circumstances from folks like you. Perhaps you could volunteer any personal penalty that any of you have suffered as a result of this, other than the time and pain of going through a hearing. Is there any financial cost to any of you as individuals as a result of this proceeding?

Mr. BROWN. Does it necessarily follow that we should have a financial penalty, Mr. Congressman? You know, we said we made a mistake. We made a mistake in the sense that I am the chief executive officer and no one in the organization picked up the fact that we weren't reporting. And, obviously, that's very serious.

As far as individuals are concerned, I think it's been a very difficult period for all of us. And I think, as Congressman Frank stated earlier, that the events of the last several weeks would have been a great penalty even without the fine. I think essentially that's what he said.

Mr. COOPER. To me, a money penalty does make a difference because it's one of the last things you'd be willing to sacrifice, to actually take a cut in pay, or even receive what I assume is some sort of merit pay increase that you gentlemen receive through your tenure for your ability in administering the affairs of the bank.

To me, that's what strikes closest to home in a free market system. If your shareholders had to bear some of the burden for your lack of awareness of these details, that would be a financial penalty the market could understand. But your shareholders aren't feeling any pinch.

I don't detect anyone associated with the bank who is feeling a financial pinch as a result of this; yet, you characterize the fine as a heavy fine.

Mr. Brown, a heavy fine would be one that would make you feel financial pain. This would be a mere blip on your upwardly increasing earnings curve.

I congratulate you on the financial success of the bank, but a heavy fine, if you want to talk heavy fines, might involve penalizing you for every day that the transactions went unreported. You all were very smart and very astute to plea bargain your way out of a truly heavy fine, and your shareholders are probably lucky as a result.

But, in future cases, I feel that we'll have to hold the individuals involved to a higher level of responsibility.

Thank you.

Chairman ST GERMAIN. Mr. Brown, in your opinion, who should have caught this? Who was the individual who dropped the ball, so to speak?

Mr. BROWN. Obviously, under our system, Mr. Dormer should have. He was the director on the line and he didn't catch it. He should have caught it. His immediate superiors perhaps should have caught it.

Chairman ST GERMAIN. Who is his immediate superior?

Mr. BROWN. At that time, I think, an individual by the name of Tony Rubico. Then, his immediate superior was Mr. Tangney, Eugene Tangney. I feel that, certainly, audit should have caught it.

Chairman ST GERMAIN. Internal audit? That's why I asked you if any of those people took an early retirement.

Mr. BROWN. No, they haven't.

Chairman ST GERMAIN. Do you think they might be considering it?

Mr. BROWN. I don't think so. But, as I told you, Mr. Chairman, we have not yet completed all of our internal investigations.

Chairman ST GERMAIN. Mr. Brown, I'm in a job which deals with constituents. We deal with constituent requests and with constituent problems. I've got news for you. When I was elected, in about the first 8 months, I had one individual on the staff who spent more time at lunch than I spent in the office. One day, I went and I checked this fellow's desk. I know it wasn't right, but I just couldn't understand. His drawers were chocolate box full with constituent letters that had not been replied to. I got news for you. That fellow was not allowed to sit at that desk when he got back there from lunch that day. He was Gonesville.



Then a guy put it in my inbox where another fellow said, "I put it on my worksheet to do next year." In 1982, he's got a worksheet for it—"I want to take care of this proposal from Treasury sometime in 1983." Wow.

Ms. KAPTUR.

Ms. KAPTUR. Thank you, Mr. Chairman. I want to commend you for holding these hearings. Coming from the State of Ohio, where community banking has always been a tradition, I sit here and listen to people talk about billions of dollars, billion dollar big financial center institutions, and all these transactions. I'll tell you, it makes me even more intransigent than I have been in my unwillingness to deregulate the banking industry and continue to let the larger banks of this country gain more influence in the marketplace.

There's an old biblical tradition: "I know my sheep and my sheep know me."

Although the world is changing faster than our ability to leverage influence, I see your institution as one that is aiding and abetting criminal wrongdoing in this country, albeit you see it as indirect, and I think you should pay a much heavier price than you've paid for it.

I also think you have helped to give the big financial center banks a worse reputation than they had before and perhaps it's well-deserved.

Mr. Brown, I wanted to ask you, how many billion dollar customers do you have?

Mr. BROWN. We don't have any billion dollar customers.

Ms. KAPTUR. What about the volume of transactions over a year, the amount of money that would come through. I just looked at the numbers here.

Mr. BROWN. Are you talking about money shipments?

Ms. KAPTUR. Money shipments that would come through your institution, that obviously related to money that would have come from your North End branch.

Isn't that what this was supposed to be, Mr. Chairman? I take it, that's what this is?

Mr. BROWN. It would be a very small amount of money.

Ms. KAPTUR. A very small amount of money would have come through your North End branch?

Mr. BROWN. Compared to the level of transactions in other aspects of our business. We transferred, for instance, to correspondent banks domestically \$1.4 billion every month.

Ms. KAPTUR. What percentage of the money? What I'm trying to get at is the amount of the cash that would have come from your North End branch. How much of that would have been attributable to one or two customers in that branch? Obviously, there was a lot of money coming through that particular branch, was there not?

Mr. COLBERT. I don't think there was anything extraordinary.

Ms. KAPTUR. That's what I was trying to get at.

Mr. COLBERT. In the overall pattern, no.

Ms. KAPTUR. We're questioning the numbers on here, \$700 million that was withdrawn that's on that chart. I guess it isn't on that chart.

Mr. DORMER. I think it's a mistake, ma'am. The \$700 million were international transactions being shipped to foreign banks. The amount of money that would go to or come from the North End branch would be under \$100,000 in a week. I don't have an exact number, but less than \$500,000.

Ms. KAPTUR. Annually, how much would it be from the North End branch, and how would that compare to your other branches?

Mr. DORMER. Certainly less than \$1 million, although I don't have an exact number. I would say it would be less than \$1 million, having looked at a number of transactions since that time.

Ms. KAPTUR. How much of that was from real estate?

Mr. DORMER. I have no idea of the amount from real estate. The North End branch sent that money in as surplus money or requested money for their normal course of business. When we talk of \$1 million or \$1.5 million, over the course of 1 year to a single branch, it should be recognized that there are a number of other branches that certainly need more money to transact their day-to-day customer banking needs.

Ms. KAPTUR. But, from a particular customer, to me, that's a lot of money. At least in our Ohio community bank terms, that's a lot of money. We operate in different worlds.

Mr. DORMER. I cannot speak for Ohio, but I can speak for the six New England States, and \$1 million for a branch in 1 year is not a significant amount of money.

Ms. KAPTUR. You're saying that's the total amount for the year for the entire branch?

Mr. DORMER. For a specific branch. We're not talking about the entire bank. We're dealing with the North End branch.

Ms. KAPTUR. So it's \$1 million from the North End branch in 1 year?

Mr. DORMER. That's an estimate, ma'am.

Ms. KAPTUR. I wanted to ask Mr. Stankey—I find this so interesting in looking at the regulations. I wasn't here when the original regulations were developed, but it's unbelievable to me, knowing what we know about organized crime in this country in cash transactions, that the exempted industries include sports arenas, race tracks, amusement parks, bars, restaurants, hotels, and vending machine companies, and theatres.

We don't really say "drug traffic, prostitution or gambling." Yet, we know most of the transactions there are in cash as well.

I would just encourage the chair of the committee and the Treasury Department to take a look at its own regulations, and I'm certainly going to take a much closer look at this, because, obviously, this isn't the only financial institution in the country that is laundering.

I would reach back and look at the exempted operations here. I was going to ask you, Mr. Stankey, how were these regulations developed? And how is it that those industries were exempted?

Mr. STANKEY. The theory behind exempting those industries is that every financial investigator who is familiar with the business world understands that those types of businesses can be used to launder money, and they automatically should receive scrutiny. So you're not really gaining much additional information if you have the currency transaction reports. However, if the bank is suspi-



cious that they are, in fact, being used to launder money, the bank has some sort of specific information, obviously, the business should not be on the list.

Ms. KAPTUR. I wanted to ask one specific question here of Mr. Brown. On page 6 of your testimony, you say that during the 1970's, the two companies owned by the Angiulo family, Huntington Realty and Federal Investments, were exempted. This was prior to the changes in the regulations. What year in the 1970's?

Mr. BROWN. One was put on in 1976, and one in 1979. You made the statement that we were not the only bank that's laundering money. I would like to clarify that. To my knowledge, we are not laundering money, and we have never laundered money. If our branch in the North End was used to launder money, that's a different matter. We have never knowingly engaged in the laundering of money.

Mr. ROEMER. Would you yield for a quick question.

How much money was involved, Mr. Brown, of your knowledge or Mr. Dormer's, in the two so-called front organizations for the Angiulos over the life of the exemption? How much money are we talking about?

Mr. BROWN. I can only give you the number of cashiers checks. I think that was around \$2.2 million or something like that.

Mr. ROEMER. \$2.2 million?

Mr. BROWN. Something in that vicinity, yes.

Mr. ROEMER. Thank you.

Ms. KAPTUR. My time is expired.

Chairman ST GERMAIN. Did you say that was only \$2.2 million?

Mr. BROWN. She said over the life of the exemption. I'll remove the word "only."

Chairman ST GERMAIN. I can understand the word "only" for you. If you make \$300,000 a year, \$2.2 million is not much. But you see, to us, \$2.2 million is a lot of money.

In June 1982, Mr. Stankey wrote a letter to the Bank of Boston to ask what persons should be on the list. Do you remember that?

Mr. DORMER. Yes, sir.

Chairman ST GERMAIN. How long did it take you to answer that letter?

Mr. DORMER. I believe it was 10 or 11 months.

Chairman ST GERMAIN. He wrote in June. You replied in July. That's 13 months.

Mr. DORMER. Excuse me.

Chairman ST GERMAIN. Have you been given some additional assistance at the bank to perform your duties?

Mr. DORMER. No, sir.

Chairman ST GERMAIN. You haven't had any breakdowns, have you, from overwork? You're not overworked at the bank?

Mr. DORMER. I have worked some hours in the bank.

Chairman ST GERMAIN. It took you 13 months to reply to a letter from the Treasury. If the Treasury wrote me, I would reply in a day.

Tell me, in June 1982, Federal and Huntington were on the exempt list; correct?

Mr. DORMER. Yes, sir.

Chairman ST GERMAIN. There were check marks by those from Mr. Stankey, to tell us why those should be on the list?

Mr. DORMER. I have not seen that portion. There are two separate portions, one that deals with the customers of Coin and Currency, which are the last 5 or 6 pages. The other section deals with those customers that deal directly with our retail branches.

Chairman ST GERMAIN. You're the one who signed the memo to Mr. Cox.

Mr. DORMER. That had nothing to do with Huntington Realty.

Chairman ST GERMAIN. Having to do with the people on the exempt list, which Mr. Cox asked about.

Mr. DORMER. Huntington Realty, sir, and Federal Mortgage, I believe, are two customers of the retail segment of our bank. They did not at any time deal directly with the coin and currency department for which I am responsible. Those people were placed on there by the retail section or the metropolitan section of our bank, and, in fact, were addressed by those people within that area of responsibility.

I did not place them on the list or remove them from the list.

Chairman ST GERMAIN. OK. What I'm reading here is from exhibit No. 30 in your packet, "Human Cost Manager." "Subject: Exemption List for Large Currency Transactions. Enclosed please find the completed Exemption List for Large Currency Transactions requested by Mr. Stankey on June 8, 1982." This is dated July 8, 1983. "Hope this is an acceptable format and the information requested." That went to Mr. Cox from Mr. Dormer.

Mr. Cox sends to Mr. Stankey, on July 26, 1983, the list.

That means that Mr. Cox then added the domestic and the North End branch exemption to the letter to Mr. Stankey; isn't that it?

Mr. WILEY. Mr. Chairman, perhaps I can help on that. The letter from Mr. Stankey to Mr. Cox was received by Mr. Cox, who then broke up the existing exempt list into its component parts, sent the appropriate part of the exempt list out of each of the retail branches in Suffolk County and sent to Mr. Dormer, as head of the coin and currency department, that part of the exempt list which related to Mr. Dormer.

Chairman ST GERMAIN. Mr. Colbert, does Mr. Cox work for you?

Mr. COLBERT. Yes, he does.

Chairman ST GERMAIN. Did you know about this?

Mr. COLBERT. Not until May 5, 1983.

Chairman ST GERMAIN. You knew about it when?

Mr. COLBERT. May 5, 1983.

Chairman ST GERMAIN. You knew then that the request came from June 1982, and do you know now that it was replied to on July 26, 1983?

Mr. COLBERT. Yes.

Chairman ST GERMAIN. Do you know that now?

Mr. COLBERT. Yes, Mr. Chairman.

Chairman ST GERMAIN. When were Federal and Huntington taken off that exempt list, because in the request for justification of the exempt list, Mr. Stankey checked off Huntington and Federal; correct?

Mr. COLBERT. Yes; Mr. Stankey checked them off.

Chairman ST GERMAIN. July 26, 1983, the reply goes to Mr. Cox. Instead of justification for Federal and Huntington, they're no longer on the list; correct?

Mr. COLBERT. Yes.

Chairman ST GERMAIN. Who took them off the list?

Mr. COLBERT. I can't tell you precisely who took them off the list.

Chairman ST GERMAIN. Mr. Brown, do you know who took them off the list?

Mr. BROWN. As the result of the subpoenas, our law office immediately started taking a look at it and at the North End branch, and working with our line people, they reviewed the list.

Chairman ST GERMAIN. What do you mean by "line people"? These sophisticated terms aren't too understandable to us.

Mr. BROWN. Mr. Dormer is a line person. He is responsible—

Chairman ST GERMAIN. Who is the line person in this instance?

Mr. BROWN. In this instance, they immediately went to the North End. Mrs. Cushing.

Chairman ST GERMAIN. She was the line person?

Mr. BROWN. She was the line person.

Chairman ST GERMAIN. It went from legal to Mrs. Cushing?

Mr. BROWN. Legal was handling it, Mr. Chairman, and at that point, the line involved was the administration department, which involves Mr. Colbert.

Mr. COLBERT. I was involved.

Mr. BROWN. He became involved at this point.

Chairman ST GERMAIN. Do you call this "involvement"?

Mr. COLBERT. Yes.

Chairman ST GERMAIN. Tell us about it.

Mr. COLBERT. My office received a subpoena and we looked at it. Then we became aware that the letter was 10 months old, and we removed the names from the list.

Chairman ST GERMAIN. Did you talk to Mrs. Cushing first?

Mr. COLBERT. I did not. We just took the names off; they did not belong there.

Chairman ST GERMAIN. Who is "we"?

Mr. COLBERT. A group of people, the law office, myself and some others.

Chairman ST GERMAIN. Who in the law office?

Mr. COLBERT. I believe Jon Hayden.

Chairman ST GERMAIN. Did you say you'd take these people off the list?

Mr. COLBERT. I don't remember.

Mr. BROWN. Mr. Chairman, they formed a committee.

Chairman ST GERMAIN. I know. It seems to me that you should have known these questions would be asked. It's awfully difficult to get any answers here.

Mr. Colbert, you're the man, aren't you, the man in charge here?

Mr. COLBERT. Yes.

Chairman ST GERMAIN. So how did those two companies come to be taken off the list?

Mr. COLBERT. They did not qualify; they should not have remained on the list in 1980, after July, so we took them off the list, and we advised Mrs. Cushing.



Chairman ST GERMAIN. Did you have a conversation with Mr. Cox prior to that?

Mr. COLBERT. Not prior to May 5.

Chairman ST GERMAIN. It seems to me, earlier today, we talked about Mr. Cox and Mrs. Cushing. You wrote a memo saying you had to justify the exemption and reply in writing. You told me that Mrs. Cushing couldn't reply in writing, but she replied in May. Yes, we went through that earlier.

Mr. COLBERT. Yes.

Chairman ST GERMAIN. Did you forget about that?

Mr. COLBERT. No, sir.

Chairman ST GERMAIN. Did you forget about that? That was 1982.

Mr. COLBERT. But I did not see that letter from her.

Chairman ST GERMAIN. This was 1980, my staff informs me. You wrote a memorandum telling the branch managers what they had to do on the exempt lists. I asked you earlier this morning, how did Mrs. Cushing reply, because we read the ticket, and it said that you told people "Reply in writing," did you not?

Mr. COLBERT. Yes, sir.

Chairman ST GERMAIN. Now I ask you, how come they were left out and no reasons were given?

Mr. COLBERT. Mr. Cox did not challenge leaving those names on the list.

Chairman ST GERMAIN. But he did discuss that with you; did he not?

Mr. COLBERT. No, he did not.

Chairman ST GERMAIN. Did you ask Mr. Cox why he did not get written justification?

Mr. COLBERT. I did not, and I regret that.

Chairman ST GERMAIN. In other words, both you and Mr. Cox were afraid of Mrs. Cushing?

Mr. COLBERT. No.

Chairman ST GERMAIN. Well, you didn't challenge her, sir. You didn't ask her to comply. You know, it's one thing for Mr. Brown to say "We didn't know about the regulations. We made a mistake." But here you send out a letter. Now you knew about your letter; didn't you? Did you read the letter that you signed?

Mr. COLBERT. Yes, Mr. Chairman.

Chairman ST GERMAIN. Why didn't you require and demand compliance?

Mr. COLBERT. I was not aware of the facts.

Chairman ST GERMAIN. You didn't think it was important?

Mr. COLBERT. I did think it was important.

Chairman ST GERMAIN. Then why didn't you follow up?

Mr. COLBERT. I believed that our procedure was working. We had a people failure, a person failure.

Chairman ST GERMAIN. You were the person who failed.

Mr. COLBERT. Yes, sir.

Chairman ST GERMAIN. You wouldn't challenge that. Mr. Cox got buffaloeed by Mrs. Cushing, and you didn't step in to say "Hey."

Mr. COLBERT. I wasn't aware.

Chairman ST GERMAIN. Rather than you weren't aware of it, shouldn't it be that you didn't follow up on your own memorandum?

Mr. COLBERT. Yes.

Chairman ST GERMAIN. Mr. Kanjorski.

Mr. KANJORSKI. Thank you very much, Mr. Chairman.

Mr. Brown, I've gone through the packets here. I'd like to follow up something that my colleague from Massachusetts, Mr. Frank, was asking you.

We're being asked to enlarge the powers of large national banks. Am I to understand from your statement that I read in here, that you, at no time, were aware of the fact that any cash exchange in excess of \$10,000 had to be reported to IRS?

Mr. BROWN. I was aware, domestically, that cash transactions had to be reported; yes. But we have said that, we were not aware of the change in 1980, as it related to bank-to-bank international transactions. We missed it, and as you know, numerous banks around the country have missed it, as well as, unfortunately, the regulators who missed it also.

Mr. KANJORSKI. Besides the guilty plea of your bank, did anyone else plead guilty?

Mr. BROWN. I don't know what the Justice Department is doing. Mr. Weld said charges would be brought, but I have no idea.

Mr. KANJORSKI. Are there any indictments pending?

Mr. BROWN. Not to my knowledge, but Mr. Weld announced to the Senate committee that there probably would be further indictments.

Mr. KANJORSKI. Do you feel now, having made the investigation you've made, and I know you're still making an ongoing investigation, but certainly, a year's time or better has elapsed, you should have a fair grasp of the facts in this case.

Do you feel there was a conspiracy in the branch bank that allowed this to happen?

Mr. BROWN. We have not found any evidence of that, and outside people looked at it, and as I say, the Justice Department has interviewed people in the branch. We have found nothing that would indicate that anyone in the branch benefited financially. That's not to say they didn't use extremely bad judgment, or, as the chairman said, that they were friendly or knew the Angiulos.

All I am saying is, our investigation does not indicate that they have benefited financially from this. If there were a conspiracy, I think——

Mr. KANJORSKI. I am not asking you whether there is evidence sufficient to convict. I am asking you whether in your own mind, this was the failure of judgment of the management.

Mr. BROWN. Our investigation indicates that Mrs. Cushing just had a failure in judgment, yes, and perhaps she was friendly with them, but there's nothing to indicate to us that she benefited from it.

Mr. KANJORSKI. It seems to me that we are asked to extend the powers of major banks, and we're always cited with evidence that most of the failures or misuse of activities by large banks are the result of criminal activity. The argument is always made, "Well, you can't stop crime," but that in every other respect granting ad-



ditional powers to banks and making them more competitive and have their own checks and balances. Would you say that's incorrect, that there is a problem internally with management's judgment?

Mr. BROWN. No, I wouldn't. Unfortunately, this is an extremely important law that we missed; that is, we missed the requirement to report bank-to-bank transactions. But if you take into consideration all the rules and regulations that the banking industry has to comply with and does comply with, this was a large one, but it was one that we did miss.

Mr. KANJORSKI. But carrying this just a little further, this was just a couple of million dollars, "just a couple of million dollars." But theoretically—

Mr. BROWN. I don't think the amount is important, Mr. Congressman. I think the important thing is, we missed it and didn't put it into our system. So it could have been \$2 million or \$200 million.

Mr. KANJORSKI. That is the point I am making. The failure could have been catastrophic. Every illegal dollar transaction in the United States could have gone through that branch bank.

Mr. BROWN. No; no money was going through the branch bank, in that sense. What we are talking about are two different things.

The bank-to-bank transactions, international transactions, are strictly bank-to-bank.

Mr. KANJORSKI. I am not talking about the technical violation of the law.

Mr. BROWN. We didn't fail to pick up anything, Mr. Congressman, with respect to the branch. We knew the law.

Mr. KANJORSKI. You picked it up in the branch.

Mr. BROWN. We were very much aware of the law. What went wrong in the branch was that our branch manager elected to keep the Angiulos on the exempt list.

Mr. KANJORSKI. There was no procedure. It only took that one individual to put one or two firms on the exempt list.

Mr. BROWN. She submitted it to branch administration, and the officer in branch administration did not alter it. He questioned it, according to our investigation and the information you have been given, but when she insisted that they should be on the exempt list, he didn't go to his superior or do anything about it.

Chairman ST GERMAIN. Who was the "he"?

Mr. BROWN. Mr. Cox.

Mr. KANJORSKI. The problem is, you're saying that you don't feel after a year's investigation that there is any conspiracy or any criminal activity by these parties. This was just poor judgment and poor management on their part.

Mr. BROWN. As far as we can determine, Mr. Congressman; that's correct.

Mr. KANJORSKI. What would prevent this from happening, on a larger scale, a billion dollars rather than just a couple of million dollars?

Mr. BROWN. I would certainly assume that with respect to the Bank Secrecy Act and after what's gone on in the last few months, every bank in the country is doing exactly what we're doing. They're going back and putting the records together to determine

if they failed to report, and we could have many, many banks that have failed to report. I suspect that in the future, they will be doing what we will be doing, and that is, setting up a system where it can't happen again.

Mr. KANJORSKI. Do you think this is common practice in many banks in the country?

Mr. BROWN. I think many banks missed it; yes, I do. And what I'm talking about are failures to report transactions.

Mr. KANJORSKI. If this were a \$2 million transaction, regardless of whether it was legitimately obtained cash or illegal, that would have created about \$1 million in tax revenue for the United States; is that correct?

Mr. BROWN. I would assume so; yes.

Mr. KANJORSKI. Do you think that perhaps a regulation taking the lost revenue of the United States times multiplier of 3 would be a proper penalty for an institution, to see that you would not unknowingly mismanage it and become a participate in transactions of this nature?

Mr. BROWN. Mr. Kanjorski, I think a lot of studies should be made as to what penalties should be added. I don't think you want to put the financial institutions out of business. I think they're necessary to our economy.

Mr. KANJORSKI. No, Mr. Brown, I certainly don't. Our problem is, how do we enforce this? What do we do in government?

Mr. BROWN. I think you've done enough now.

Mr. KANJORSKI. We didn't pick up this mistake. There aren't many banks that are going to make your mistake again. As my colleagues have said, I would not have liked to have sat at that table. I more than empathize and sympathize with you, but this transaction wasn't picked up.

There must be another method that the underworld has found to penetrate our banking system. Are we always going to wait until someone with the foresight of Mr. Stankey to ask questions to pick this up? What if he wasn't there? It would still be going on today. How are we going to clean that up?

Mr. BROWN. I sincerely believe, Mr. Congressman, that after what's happened, banks are going to be putting in place procedures so that the underworld will not be able to use banks. I really believe that, because I have talked with many other CEO's, as the result of our problems, and I believe that procedures are going to be put in place that will increase awareness of the criminal element and the laundering of money. And I sincerely believe that the banking system, at least the major banking system—I can't speak for smaller banks—will put into effect procedures, so that it is going to be extremely difficult for organized crime to operate through the banking system.

Obviously, there is no way you are ever going to totally stop it, I don't imagine. But I think you're going to stop most of it. I think you've done a great job right here.

Mr. KANJORSKI. You don't think we have given any one in the underworld ideas as to how to put something into effect.

Mr. BROWN. I don't think so.

Mr. KANJORSKI. I yield back the balance of my time.

Chairman St GERMAIN. Mr. Manton.

Mr. MANTON. Thank you, Mr. Chairman.

I take it that there were two failures on the part of the Bank of Boston, one in the domestic arena involving the Angiulos and the other in the international transfer of moneys, is that correct?

Mr. BROWN. Right. In the international arena we failed to react to the bulletin that told us that bank-to-bank international transactions were no longer exempt and that we should report them. We missed that.

Mr. MANTON. And that failure was to the extent of an amount in excess of \$1 billion?

Mr. BROWN. Once we failed to put the regulatory change into effect, Mr. Congressman, unless we caught it or somebody caught it, it would have gone on indefinitely, yes.

Mr. MANTON. In the final analysis, before you checked it, it was over \$1 billion?

Mr. BROWN. \$1.2 billion.

Mr. MANTON. And the Angiulo figure is, if I understand correctly, \$2.2 million?

Mr. BROWN. The Angiulo figure, which is entirely different, involves the purchase of cashier's checks in the amount \$2.2 million.

Mr. MANTON. Over how long a period was that?

Mr. BROWN. Several years. I don't know exactly.

Mr. MANTON. That was at a time, of course, when you knew about the domestic regulation, right?

Mr. BROWN. Say that again.

Mr. MANTON. That was at a time when you knew about the domestic regulation and you attributed it to a personal failure on the part of one of your employees, specifically Mrs. Cushing, or Ms. Cushing, as the case may be?

Mr. BROWN. Yes, I was referring to the judgment she used to keep the Angiulos on the exempt list. They were properly put on in the first place, but they should have been removed in 1980.

Chairman ST GERMAIN. Excuse me. You just said they were properly put on?

Mr. BROWN. That is correct. Perhaps Mr. Stankey can help us, but as I understand the original law, it simply required or stated that people dealing in large cash transactions can be put on the exempt list.

Chairman ST GERMAIN. For what reason?

Mr. BROWN. Because they were dealing in large amounts of cash.

Chairman ST GERMAIN. So you say they were properly put on the exempt list?

Mr. BROWN. Under that definition, yes.

Chairman ST GERMAIN. Under what definition?

Mr. BROWN. That companies dealing in large cash transactions could and should be put on the exempt list.

Chairman ST GERMAIN. If that is the case, then everybody should be on it, right?

Mr. BROWN. I think at that time—

Chairman ST GERMAIN. Excuse me, but do I have an exempt list. If companies dealing in large cash transactions should be put on the list, that means everybody goes on the list, right, Mr. Stankey?

Mr. BROWN. That list was available.

Chairman ST GERMAIN. Now, I am asking Mr. Stankey.



Mr. STANKEY. Mr. Chairman, I believe the background to that particular regulation was that at the time it was assumed that the banking industry would accept the responsibility for determining whether or not these were legitimate businesses and whether or not these customers were really engaged in a retail type of activity that could be exempted.

We subsequently, of course, found out that the banking industry needed more restrictive direction, and the regulations were changed in 1980. At that time we made the revision and limited the exemption to the lawful activities of the customer.

Chairman ST GERMAIN. Let me ask you, Mr. Stankey, in your opinion—maybe you feel they were properly on the list, yet you were going to check them off if they were on after 1980—were Federal and Huntington properly on the list?

Mr. STANKEY. I am really not in a position to say whether or not they were properly on the list prior to 1980 because only the bank would be in a position to know whether or not—

Chairman ST GERMAIN. You assume the bank knew their customers?

Mr. STANKEY. Right.

Chairman ST GERMAIN. You assume the bank knew what type of business the customers were in; correct?

Mr. STANKEY. That is correct.

Chairman ST GERMAIN. You are assuming the bank knew the character of the customers? In banking, Mr. Brown, when somebody comes in to you for a loan—not today because you are in the hierarchy, you are way up there—among other things, don't you consider the character of the individual in determining whether or not you are going to lend money to that individual?

Mr. BROWN. Absolutely, when they come in for a loan, we look into their background, but this has not been the practice of banks as far as an individual walking in and making a deposit.

Chairman ST GERMAIN. That is right, you don't do that. When they make deposits of large amounts of cash and there is an exempt list called for by Treasury and the U.S. Congress, that is not making a deposit, is it? That is a little more than a deposit?

Mr. BROWN. That certainly is, Mr. Chairman.

Chairman ST GERMAIN. These companies were put on the exempt list, and you think they were properly on the exempt list.

Now, remember, in truth, your employee, your agent, the manager of the North End branch, Mrs. Cushing, was your agent. She was making that decision for you just like your loan officer makes a decision as to the character of the borrower; right?

Mr. BROWN. That is correct.

Chairman ST GERMAIN. So you still will stand here and say that they were properly on the list, knowing what you know today, and she knowing what she knew in 1976 and 1979?

Mr. BROWN. Mr. Chairman, that is what a number of lawyers who have read the original rule have told me—they are properly on the list have told me.

Chairman ST GERMAIN. We are talking pure legal terminology, but now I am asking you—

Mr. BROWN. Obviously, Mr. Chairman, if our branch manager had looked into their background, she should not have put them on the list even at that time.

Chairman ST GERMAIN. She lived there all her life in the North End?

Mr. BROWN. I don't know.

Chairman ST GERMAIN. That is my understanding. She lived there, had a place of her own, and she collected rents, too.

Mr. BROWN. It is my understanding that she now lives in Belmont.

Chairman ST GERMAIN. If you are a branch manager and you are in the North End, if the Angiulos are customers of yours and they come in with large amounts of cash, and if you read any of these newspaper stories, don't you think that that would have raised some suspicion in your mind?

Mr. BROWN. I certainly think if I had read those stories and I were running the North End branch and I saw the name Angiulo, it certainly would have, yes.

Chairman ST GERMAIN. After all, let's face it, from now on, when I see the name Mr. William Brown any place in the American Banker, I am going to read the story because you and I have met, right?

I am sure Mrs. Cushing read the stories about the Angiulos because they were customers of hers.

Mr. BROWN. She probably did.

Chairman ST GERMAIN. I ask you again, did she properly put them on the exempt list?

Mr. BROWN. Obviously, if she had read this, she would not have properly put them on the exempt list, yes, Mr. Chairman.

Chairman ST GERMAIN. Mr. Manton, you have got 5 minutes.

Mr. MANTON. Thank you, Mr. Chairman.

The chairman led up to my next question. Banks get to know a lot about customers when they make loans.

My question to you is were any loans made by your bank to Mr. Angiulo or to any of his connected friends, Huntington Realty or Federal Investment?

Mr. BROWN. To my knowledge—we have asked that and I have asked to have the records searched—there were no loans made other than a first check credit loan, which is, I believe, in the vicinity of \$400. I think that is correct information, and that was paid a long time ago.

Mr. MANTON. And when you make that kind of preliminary check, that is not a detailed investigation?

Mr. BROWN. That is a small consumer loan.

[In response to the request of Congressman Manton, the following information was submitted for the record by Mr. Brown:]

#### FIRST CHECK CREDIT

Congressman Manton asked whether we had made any loans to any Angiulo family members or Angiulo-controlled companies (Tr. 144). We informed Congressman Manton that there were no such loans, except for a First Check Credit account (an open-end consumer loan product) that was ultimately cancelled by the Bank. That First Check Credit account was held in the name of Nicolo V. Angiulo who used the account from 1976, when the account was opened, until the Bank closed the account in 1984. A review of our existing account records indicated that, during



that time, the customer initiated on several occasions credit advances totaling approximately \$7200 rather than the \$400 indicated during our testimony. The customer repaid those advances in accordance with standard account terms in regular installments from \$200 to \$400 per payment.

Mr. MANTON. In your prepared testimony, you spoke about the transfer of international money, transfer operations from overseas, transfers from the New York banks to your bank and perhaps other Boston institutions because of logistical difficulties at JFK Airport. And the airport is, of course, in Queens County, from which I come, although I don't represent the site of the airport.

What are those logistical difficulties that you make reference to?

Mr. BROWN. The Swiss banks wanted to use the Swiss airline. They were the ones who arranged with Swiss airlines to carry the cargoes, and they felt that from a hijacking point of view, it would be much safer to operate from Logan. The distance involved in transporting the money from the Federal Reserve in Boston, which is where we had to get the money, over to Logan was a shorter distance, and from an insurance point of view that would save them money.

Mr. MANTON. Did that have something to do with the Lufthansa hijacking?

Mr. BROWN. Yes.

Mr. MANTON. Throughout all of your testimony, I detect a disclaimer to some extent of the assumption of responsibility on the basis that the conduct of the bank was unintended.

Lawyers—and I plead guilty to being a lawyer—have an expression that they use called *res ipse loquitur*, "The thing speaks for itself." You are all high paid management executives. Don't you think that the massive amounts of money involved in these unreported transactions—should not that have given an astute manager a warning that something was wrong?

Mr. BROWN. No, Mr. Congressman. First of all, it is the failure to report that is the problem. The transactions themselves are perfectly legal, and are going on today, as long as they are reported. The magnitude is not important because our failure was, in the first instance, a failure to implement the system or to focus on the fact that the law had changed. Once we did that, the numbers mean nothing. If it had been caught within a week, it would have been one number, and it was caught in 4½ years, and the numbers became very large.

But the act itself was a failure to catch the change in the law. That came back in 1980.

Mr. MANTON. Shouldn't the fact that many hundreds of millions of dollars in small bills are coming in from the Swiss bank and, on the other hand, you are sending out new bills in larger denominations back to Switzerland that have triggered any inquiry on your part as to the source of that money?

Mr. BROWN. I honestly don't think so because, after all, we were dealing with large banks, and they are not going to tell us what the sources of their funds are. One way you could correct this is to take the private banks out of the currency shipping business and turn it over to central banks.

Mr. MANTON. More regulation?

Mr. BROWN. But those small bills will still come to the central banks because within the vaults of any bank in Europe I am sure you will still have a large amount of dollars from finance and trade, tourism, and possibly money laundering. Once it gets into the vaults of the bank, whichever bank it is, the bank simply ships its cash over. Whether it shipped the cash to us or a New York bank or it shipped to a central bank, you can't prohibit the shipment of cash.

Mr. MANTON. All the more reason for proper reporting, wouldn't you agree?

Mr. BROWN. Oh, yes, we made a mistake in not reporting, absolutely.

Mr. MANTON. At a recent press conference, you said that there were going to be hundreds of banks around the country reporting violations of the Bank Secrecy Act, and in fact last week several large banks have already voluntarily come forward.

In view of the fact that these large banks are coming forward and perhaps some will have to be dragged forward, do you feel there is a need to strengthen the Bank Secrecy Act?

Mr. BROWN. I think you have just done it with this hearing.

Mr. MANTON. People have a way of forgetting. Memory dims as time goes on.

Should we not legislate in this area to make sure that whatever progress we have made today is not forgotten?

Mr. BROWN. I don't think it will soon be forgotten. That is my own opinion.

Mr. MANTON. My time has just about expired. You are saying that we shouldn't legislate?

Mr. BROWN. I think we are talking about the McCollum bill. If banks are going to have a know your customer procedure, I think we are going to need some help on the privacy issues. As far as making it a crime to launder money, I think that is the right way.

But as far as any procedure—

Mr. MANTON. I will conclude by saying that there is a great movement toward deregulation in all kinds of industries, including banking. These are issues that we will have to be dealing with.

But I, for one, am troubled because I see the banking industry as an industry that has a higher calling, if you will. It is really largely based on trust and confidence more than just marketplace type judgments.

I would suggest that what has been happening here, what we have been discussing here and what has happened recently in the thrift institutions in Ohio, has obviously hurt the case somewhat for deregulation.

My time has expired. Thank you, Mr. Chairman.

Chairman ST GERMAIN. Mr. Colbert?

Mr. COLBERT. Mr. Chairman.

Chairman ST GERMAIN. Mr. Cox talked to Mrs. Cushing, and Mrs. Cushing said, "I want these two firms kept on the list." Right?

Mr. COLBERT. That is my understanding.

Chairman ST GERMAIN. This is the third time we have gone over this.

Mr. COLBERT. Yes, that is my understanding.

Chairman ST GERMAIN. Now, did Cox know who the controlling parties of Huntington and Federal were?

Mr. COLBERT. Not to my knowledge.

Chairman ST GERMAIN. Should he have asked Mrs. Cushing who the principals were behind these firms?

Mr. COLBERT. He certainly should have.

Chairman ST GERMAIN. Did you ever ask who the principals were behind these firms?

Mr. COLBERT. When I found out about the firms, I was told who the principals were at the same time.

Chairman ST GERMAIN. When was that?

Mr. COLBERT. After May 5, 1983.

Chairman ST GERMAIN. OK. In 1982, however, Mr. Stankey asked for justification of these firms being on the list; right? Didn't you see that inquiry?

Mr. COLBERT. I did not.

Chairman ST GERMAIN. Did Mr. Cox keep it away from you? He didn't show it to you?

Mr. COLBERT. He did not.

Chairman ST GERMAIN. Why didn't he show it to you?

Mr. COLBERT. I asked him. He did not have an answer.

Chairman ST GERMAIN. When did you ask him?

Mr. COLBERT. When I found out about it in 1983.

Chairman ST GERMAIN. He had no answer?

Mr. COLBERT. No, he said he intended to do it himself.

Chairman ST GERMAIN. So you found that out in 1983?

Mr. COLBERT. That is right.

Chairman ST GERMAIN. Mrs. Roukema?

Mrs. ROUKEMA. Thank you, Mr. Chairman.

I would like to say, before I direct my questions to Mr. Stankey, that I have sat through a great portion of this hearing, and I just want the gentlemen at the bank to know that in my opinion your confessions of incompetency and indifference really stretch credulity. I am absolutely astonished with the confessions that have been made here today.

But I do want to direct my questions to Mr. Stankey, as the Treasury enforcement officer.

I think there have been many, many questions, too many to answer here today, but I would like you to address yourself to at least one portion of the issues that have been disclosed.

In the first place, we have heard a lot about currency transactions. You have indicated your opinion of some of them.

Could you address yourself to what your recommendations are and what the administration recommendations are to correct some of these problems, specifically, the question of regulation?

We have heard a lot of discussion about regulation and deregulation.

In what way do you think regulations should be changed to address the criminal aspects of banking transactions, as we have heard them discussed; and, second, what is your opinion as to what kinds of criminal sanctions should be built into our code?

I know some of this we discussed in my absence, but I don't think it has been specifically addressed by you, Mr. Stankey, based on your own experience with this case.



Mr. STANKEY. I'm not at liberty to speak for the Treasury Department or the administration. I am here today, if you will, as a technical expert and nothing more than that.

Mrs. ROUKEMA. I'd be happy to hear from you as a technical expert.

Mr. STANKEY. As to the question of what needs to be done, I think that Treasury officials have already said that bills such as Mr. McCollum's bill would go a long way toward giving us additional authority that's needed in order to perform investigations of possible violations of the Bank Secrecy Act, whether it be at banks or foreign exchanges, or wherever, or at the border. And the increase in penalties, I think, would also be helpful.

Other than that, I'm not certain that additional legislation is needed.

Mrs. ROUKEMA. Not even in the regulatory area?

Earlier, while I was in attendance, and I suspect after I left the hearing, there was considerable discussion about new regulations, the need for tightening up the regulations juxtaposed next to the need for deregulation.

I would like to hear your appraisal of those.

Mr. STANKEY. Obviously, the regulations are being reviewed.

Mrs. ROUKEMA. It's hard for me as a Member of Congress, but a layman in terms of the enforcement area, to understand how much regulation, how many changes in regulation would be necessary to be, one, a deterrent, and, two, a real means of enforcement.

It seems that no matter how much regulation you have, that those who are intent on either pleading ignorant of the law, or with a clear intent of circumventing the law, can always find a way.

Mr. STANKEY. As Mr. Brown pointed out, this particular incident has attracted a great deal of attention. And I think that the fine that was imposed on the Bank of Boston will have a deterrent effect, and has had a remarkable effect on top financial executives around the country.

In addition to that, I assume there may very well be additional civil penalties which will also get the banking industry's attention.

Mrs. ROUKEMA. What about the reporting requirements, for example?

Mr. STANKEY. The reporting requirements, as I indicated, are being reviewed. But, I really, at this time, can't identify any area that should specifically be changed. My own personal preference might be that in the case of cashier's checks, that they might be reporting at a lower level, a lower dollar amount. But a lot depends upon the banks assuming the responsibility for assuring compliance with the law.

It's pointless to issue additional regulations or to tighten regulations if the banks aren't complying.

Mrs. ROUKEMA. Therefore, what you're saying is we really have to concentrate on sanctions?

Mr. STANKEY. I think we should. Criminal sanctions, but also civil sanctions, and increased compliance activity by the Government.

Mrs. ROUKEMA. I thank you very much.

Mr. BROWN. Mrs. Congresswoman.

Mrs. ROUKEMA. I'm sorry. Mr. Brown?

Mr. BROWN. You made a statement that I just wanted to clarify for the record from my point of view. You made a statement about confessions of incompetence. I don't know whether that was your definition. I assume it was because what you heard here today is the fact that we missed a change in the law in 1980. And as far as the foreign exchange transactions were concerned, that's what we did.

Second, we stated that there was bad judgment used by a branch manager. I don't consider that gross incompetence. That is a very serious error.

Mrs. ROUKEMA. It's a serious error. I think it's a confession of incompetence. And, as I recall the chairman's annotation of the problem here, it was far more than just that one incident in 1980.

Mr. COOPER. Would the gentle lady yield?

Mrs. ROUKEMA. Yes, I would yield.

Mr. COOPER. Mr. Brown, you said you do not consider it gross. I thought, in our colloquy, we went through the fact that the only worse type of penalty that the Government has within its power to levy penalty is a capital offense. Your institution has pleaded guilty to a criminal felony; whether you characterize the individual incidents which make up that felony as competence or not, the fact remains that your institution has pleaded guilty to a criminal felony. Your institution is a felon. You, as individuals, made those decisions which rendered your institution to be a felon.

And I support my colleague from New Jersey in the fine points of the words used, I don't think the level of penalty has still sunk into your brain. Criminal felony could have caused imprisonment or, as I understand it, for up to a period of 5 years. I don't know what the local Federal Establishment is in your area.

You could possibly have been in Walpole for 5 years as a result of this had the Justice Department exercised a different type of agreement. That is an amazingly serious crime.

And, to me, for you to sit here and quibble over whether it is this or that, you've got to face up to the fact that your institution has already pleaded guilty to being a criminal felon.

Chairman ST GERMAIN. Mr. Gordon.

Mr. GORDON. Mr. Brown, I'm ready to go back to my office, and I'm sure you're ready to go home, so I'm going to try to be real brief.

Chairman ST GERMAIN. If Mr. Gordon, Mr. Brown wants to stay over, we'd like to have him.

Mr. GORDON. Do you consider the money-reporting requirement good public policy?

Mr. BROWN. Yes.

Mr. GORDON. Do you think that it discourages criminal activity?

Mr. BROWN. I would assume it does, yes.

Mr. GORDON. You don't know?

Mr. BROWN. Yes, I think you can assume that, yes.

Mr. GORDON. So I assume you would think that it would not at least encourage criminal activity?

Mr. BROWN. Yes.

Mr. GORDON. I don't want to belabor this, and I'm not sure I have too much more to add. I feel the arrogance that you've shown



today is going to allow you to get up and walk away from this table and not look back. And I think it's the same type of arrogance that's got us into this problem.

And when I say "you," to some extent, I mean in the cumulative sense. You've been able to sit behind the table, wear a white shirt, and insulate yourself through a series of lackies so that you could come here and say, "I didn't see anything, I didn't hear anything and I didn't say anything, specifically."

But you had to know and many others; whether it's Defense contractors with overruns or big banks, you had to know that something's going on. It really concerns me. It reminds me, when I was a kid, we had a pet raccoon. And I remember seeing that raccoon go into the kitchen and it would steal little sugar cubes from my mother that were in the cabinet and it would always turn its head. You know, it put its hand in there but it would turn its head.

And I feel like that's what we're seeing today. It makes it hard for me to go home this weekend. I'm going to talk to a sixth grade class, and I would like to tell them that if you work hard and if you study and obey the law, that you'll do well.

But they're going to watch on TV tonight and they're going to see how someone through criminal activity made a lot of money—a million dollars or more is a lot of money where I come from—yet only had to pay half of that back.

They're going to see—and I have a real sympathy for your family because your family, I'm sure, has been through a lot and it's unfortunate that they've had to do that. And we've been through some embarrassment, but I just can't have any sympathy for you, making \$300,000 or more a year. You wouldn't give any of that up. You wouldn't give that up for what you've been through here.

It reminds me of a cliché. And another thing that concerns me, I'm a lawyer from a little town and I've seen kids go to jail for taking a car for a joyride. I've seen kids go to jail for writing bad checks. And it reminds me of the cliché where they say that "guns don't kill—people do." Well, banks don't commit criminal activities—people do.

And until people are punished for that, it's not going to stop.

Thank you, Mr. Chairman.

Mr. BROWN. Mr. Congressman, I'm sorry you feel that there's any arrogance here because there certainly isn't. We're very contrite about what's happened and we're trying to do everything possible to see that it never happens again.

Mr. GORDON. But you're not willing to admit that it was gross negligence. And you're not willing to admit that you really knew something was going on. But you had your head turned; you know, you didn't want to know about it. And the reason you didn't know a lot of these is because your conscience said, "Don't look at it. I don't want you involved." You took the advice of your counsel and they said, "Don't get involved. If you don't know, then you don't have to answer." That's arrogance, I think.

Mr. BROWN. In 4½ years, obviously, that was gross negligence. That is why we pleaded guilty.

Mr. COOPER. Would the gentleman yield? Forgive me for being technical, but isn't "gross negligence" a lesser standard than "knowing and willful failure"?

"Gross negligence" is not quite as bad an activity as "knowing and willful failure to do something." That's what the bank pleaded guilty to.

Mr. BROWN. I'd have to defer to lawyers. I'm not a lawyer.

Mr. COOPER. To me, it's very important to keep the levels of care involved straight here, and a breach as severe as knowing and willful failure results in a criminal felony. That's something that I still am not sure you are aware of. And I think that's perhaps the source of my colleague's concern, with arrogance on the part of this bank's management.

Chairman St GERMAIN. Don't leave yet. This is really fascinating. Now we're back to 1980. OK? Here we go.

February 8, 1980, check No. 1164143, amount \$10,000, purchaser is Huntington Realty, for \$50,000 in cash. From \$50,000 of old \$100 bills combined with \$280 in checks.

In other words, this check was for \$10,000, a cashier's check, that incidentally was never reported. They were too busy; \$50,000, five \$10,000 checks bought with \$50,000 in cash.

Now, we can understand, Mr. Gordon. We've read those numbers before. Then, so that those five are listed, we go to check No. 1164149. Remember, 148 was missing. That went to this chap in Switzerland we don't know anything more about—\$250,000 from old \$100 bills. Five days later, on February 13, 1980 in the year of Our Lord.

Mr. Brown, let me ask you something. Do you think you would have considered it proper for somebody to come in the North End Branch—how big a bank is that? Five or six rooms? One room? What?

Mr. COLBERT. Mr. Chairman, it's a relatively small branch, about 2,000 square feet. Four tellers in 1980, I think. We might have had five tellers.

Chairman St GERMAIN. So it would be what? Twice as big as this room?

Mr. COLBERT. Oh, no, it would be about the size of the area in front of the dais.

Chairman St GERMAIN. So it would be about 2,000 square feet. So 2,000 square feet, five tellers maybe, and a fellow comes in—J. Angiulo. He comes in with \$250,000, in \$100 bills, on February 13, having been in there on February 8 and having bought five \$10,000 checks for \$50,000 in cash—\$250,000.

Mr. Brown, you've been in banking 30 some odd years. If you were coming into the North End branch, what type of container would you have to use? How big a container? Would there be a half bushel basket? A bushel basket? A cigar box? An orange crate?

Mr. BROWN. I'd assume you'd need a large container.

Chairman St GERMAIN. \$250,000 in hundred-dollar bills, it takes a long time to count that; doesn't it? I take it, they're old bills? They get sticky and all that.

Not one word is said to you.

Mr. Colbert, did anybody call you and say, "Hey, we had this individual come in here a few days ago with \$50,000 in \$100 bills. Now he's back again with a pickup truck and he's emptying it out." What do you do with all these \$100 bills, Mr. Colbert? No one ever called you on it?

Mr. COLBERT. No.

Chairman ST GERMAIN. Did they call Mr. Cox?

Mr. COLBERT. I do not believe so.

Chairman ST GERMAIN. He never told you anything about it; right?

Mr. COLBERT. No.

Chairman ST GERMAIN. Did Mrs. Cushing ever call Mr. Cox or you? Is this an ordinary happening in the North End branch?

Mr. Brown, is that an ordinary happening in the North End branch?

Mr. BROWN. I certainly hope not.

Chairman ST GERMAIN. That would be an extraordinary happening anywhere, would it not—\$250,000 in one fell swoop? But, of course, this was very proper, wasn't it?

Mr. BROWN. Of course, it wasn't proper, Mr. Chairman.

Chairman ST GERMAIN. No, it wasn't. Of course not.

How come that wasn't reported? There were no reports made on those cashier's checks.

Mr. BROWN. The branch manager didn't choose to report them. I can't give you the answer.

Chairman ST GERMAIN. Didn't the branch manager know that there is an obligation to report that type of transaction?

Mr. BROWN. Based on the instructions she had, yes.

Chairman ST GERMAIN. When did you find out about this?

Mr. BROWN. After the subpoenas were received in 1983 and we started looking into it.

Chairman ST GERMAIN. After the subpoenas were received in 1983, and you started looking into what?

Mr. BROWN. The North End branch.

Chairman ST GERMAIN. How long did it take you? The subpoenas were for what date in 1983, Mr. Wiley?

Mr. WILEY. The first subpoenas were May 5, 1983.

Chairman ST GERMAIN. May 5, 1983. You started looking into it then, I assume. Right, Mr. Wiley? The legal department?

Mr. WILEY. Immediately.

Chairman ST GERMAIN. Immediately. When did you find out about the cashier's checks?

Mr. WILEY. During the course of 1983 as the investigation progressed.

Chairman ST GERMAIN. I mean, does it go in the inbox?

Mr. WILEY. I don't know when during 1983.

Chairman ST GERMAIN. This inbox is probably a very deep box. You could probably hide \$250,000 in \$100 bills there. It's 15 months before it gets out of the inbox, right?

Do you think that went into the inbox, the subpoena, or was it acted upon?

Mr. WILEY. It was acted upon immediately.

Chairman ST GERMAIN. A little better. So, what? It took 2 or 3 or 4 months in the North End branch before you found out about these cashier's checks?

Mr. WILEY. I could not give you the specific date during the investigation when those were discovered.

Chairman ST GERMAIN. You've seen the cashier's checks, Mr. Wiley?



Mr. WILEY. Yes, I have.

Chairman ST GERMAIN. Who compiled this list?

Mr. WILEY. The lawyers.

Chairman ST GERMAIN. The lawyers compiled the list?

Mr. WILEY. From bank records.

Chairman ST GERMAIN. These records were available to Mr. Colbert, Mr. Wiley, Mr. Brown, and Mr. Cox, at the North End branch?

Mr. WILEY. Yes.

Chairman ST GERMAIN. This came to light during 1983?

Mr. WILEY. That's my understanding, yes.

Chairman ST GERMAIN. Were any other cashier's checks made out at the North End branch and not reported, or was that the end of it all?

Mr. WILEY. There may have been some other cashier's checks on that list.

Chairman ST GERMAIN. That were not reported after 1983?

Mr. WILEY. After 1983? No; I believe there was no activity in those Huntington and Federal accounts after the very end of 1982.

Chairman ST GERMAIN. Was Mrs. Cushing still the branch manager in 1984?

Mr. WILEY. She was the branch manager until her retirement, I believe, in 1985.

Chairman ST GERMAIN. You knew about these cashier's checks that were unreported in the amount of \$300,000 in cash during 1983?

Mr. WILEY. Yes, it was during the course of the investigation.

Chairman ST GERMAIN. When did you tell Mr. Brown about them?

Mr. WILEY. Mr. Brown was first apprised of the subpoenas when they arrived early in May 1983. He was briefed on several occasions during the course of May and June 1983 as the original part of the investigation started to go forward.

Chairman ST GERMAIN. Mr. Brown, when did you hear about the \$300,000 utilized to purchase cashier's checks on February 8?

Mr. BROWN. It was some time after we brought in Ropes & Gray, I can't, Mr. Chairman, give you the exact date.

Chairman ST GERMAIN. Mr. Wiley said he found out about this in 1983. When did Ropes & Gray come into it?

Mr. WILEY. Our law office began investigating in response to the subpoena in 1983. Ropes & Gray was brought in in January 1984.

Chairman ST GERMAIN. You told me that you found out that these cashier's checks were paid within 90 days.

Mr. WILEY. No, Mr. Chairman.

Chairman ST GERMAIN. Do we have to read the record back?

Mr. WILEY. No, Mr. Chairman. The question was, when did we—meaning the bank—find out about the existence of those particular cashier's checks?

Chairman ST GERMAIN. I was talking to you. I wasn't saying when did we, I said when did you, Mr. Wiley, find out about the \$300,000 in cash utilized to buy cashier's checks.

Mr. WILEY. I personally did not find out about those facts until the latter part of the fall, I think, of 1984.

Chairman ST GERMAIN. You're really on vacation? You do think that this is significant?

Mr. WILEY. I think it's highly significant.

Chairman ST GERMAIN. When did you find out about it, Mr. Brown?

Mr. BROWN. Mr. Chairman, I said I couldn't remember but the first time I heard about it was when I saw the list compiled by Ropes & Gray. Our legal department had been working on this, as you know, from the time we received the subpoenas.

Chairman ST GERMAIN. Mr. Brown, let me ask you this. Don't you think you should have been told the day that somebody came in with \$250,000 in old \$100 bills and brought four cashier's checks, that this had occurred?

Mr. BROWN. I think we shouldn't have taken them when they came in. The branch manager should not have.

Chairman ST GERMAIN. There were four or five tellers there, according to Mr. Wiley, on that day.

How could they keep it a secret from you, sir? I asked you, shouldn't you have been told and you're saying, they shouldn't have taken it. Now, how about answering my question. Shouldn't you have been told?

Mr. BROWN. In the first place, obviously, they shouldn't have taken it.

Chairman ST GERMAIN. Should they have reported that?

Mr. BROWN. Of course, they should have reported it.

Chairman ST GERMAIN. To whom should they have reported it?

Mr. BROWN. Up through Mr. Colbert.

Chairman ST GERMAIN. You found out about this in 1984.

Mr. BROWN. I would assume so. I don't know the exact date, Mr. Chairman.

Chairman ST GERMAIN. Mr. Wiley, you found out by 1984. You were in charge of the attorneys there. You're making more than \$100,000 a year; right?

Mr. WILEY. Yes.

Chairman ST GERMAIN. Did you call the people from the North End branch in and ask them to explain?

Mr. WILEY. I did not personally. Our legal department and our outside counsel were both investigating this matter. The first in 1983 and then with outside counsel beginning in January 1984.

Chairman ST GERMAIN. You mean if you get outside counsel that you can forget all about the whole kit and caboodle?

Mr. WILEY. Not at all.

Chairman ST GERMAIN. Your outside counsel didn't think that this was a rather significant occurrence?

Mr. WILEY. It was a significant occurrence, Mr. Chairman.

Chairman ST GERMAIN. That they just wanted it for a total report before informing you of it? They didn't inform you?

My staff is looking at something for me and they have come upon something unusual. They don't just give me the big book. They give me the big book and say, "Incidentally, Mr. Chairman, you should know about A, B, 2, and 4." Your people didn't tell you about this?



Mr. WILEY. We were briefed from time to time as to the nature of the investigation at various stages in its development, Mr. Chairman.

Chairman ST GERMAIN. Mr. Brown, do you think you found out about this in 1984?

Mr. BROWN. You mean about the cashier's checks?

Chairman ST GERMAIN. The \$300,000 in cash coming in.

Mr. BROWN. I knew they had used cashier's checks. I didn't know the extent of check usage or the numbers. I will assume I found out in 1984.

Chairman ST GERMAIN. Is the first time you ever found out about this?

Mr. BROWN. No, Mr. Chairman. I've seen the cashier's checks.

Chairman ST GERMAIN. So some time in 1984 you saw this. It says here that they were purchased with old \$100 bills. You must have read the same thing I did. The print isn't too fine for your understanding; right?

Mr. BROWN. Yes.

Chairman ST GERMAIN. What did you do about it?

Mr. BROWN. I didn't do anything about it because at this point the investigation was going on and this was evidence that was being gathered. There was nothing to be done at that point in time.

Chairman ST GERMAIN. Doesn't this look pretty terrible for the bank?

Mr. BROWN. Yes, it does.

Chairman ST GERMAIN. You wouldn't call in the branch manager. Were you afraid of her, too? I think Mr. Colbert and Mr. Cox were afraid of Mrs. Cushing. No one called Mrs. Cushing in and said, "How come you took this money?"

Mr. BROWN. I did not call her in because outside counsel and inside counsel so advised me—she was being very closely supervised from the time we received the first subpoenas and following their advice, I did not call her in; that's correct.

Chairman ST GERMAIN. Mr. Hubbard?

Mr. HUBBARD. Thank you very much, Mr. Chairman.

The Bank of Boston is the best known of the banks at this point that have failed to follow cash transactions. Indeed, looking at headlines, the Second Bank of Boston said it didn't report big cash transfer and neither did Charlotte Bank of Boston. Chemical Bank says it failed to report \$25 million cash moves since 1980. That's where First Chicago Corp., Bank of America Corp. both acknowledge that there have been violations but they declined to disclose the amounts involved.

We read about Manufacturers Hanover Trust Co. of New York, since 1980, 1,400 instances of filing oversights. Urban Trust of New York admits filing oversights since July 1980. We'll be hearing from other banks who admit filing oversights. But perhaps the Justice Department will be interested in finding out more.

Back in 1982, we in Kentucky remember that the Justice Department didn't get too excited about cash withdrawals down in Miami. I guess it took big ones like Boston and others.

In 1982 the former Governor of Kentucky—whose last name just happens to be the same yours, Mr. Brown—was withdrawing \$1.5 million from Miami bank accounts. Miami Herald reported in 1981,

and in 1982 there wasn't too much excitement about that. It was forgotten about. Even though the All-American National Bank near the Miami Airport was asked to explain about it. But our former Governor of Kentucky acknowledged withdrawing huge sums from the Miami bank and said the withdrawals were normal, private business transactions, and the bank just simply failed to report because of oversights.

Right now it's big news. But the biggest problem we're facing today, Mr. Chairman, Mr. Stankey, Mr. Brown, is not just the failure of these banks to report certain cash transactions, the biggest problem—and it is a serious one—is the money laundering of illegal drug money. We now have an \$80 billion a year drug trade in the United States.

Small towns in my Kentucky district, you never heard of Smithland, KY; Wakeman, KY; Hickman, KY. But those towns have a drug problem. The schools have a drug problem. The schools in the Washington area, including the two northern Virginia schools my own daughters attend, have drug problems.

Eighty billion dollars in \$20 bills and we have criminals attempting every day to launder these bills through our banks. The Miami Herald recently reported that if you lived in the Miami area and you handled \$20 bills, more than likely you were touching cocaine every day. That was a front page story about a month and a half ago on their Sunday edition.

The Bank Secrecy Act was designed to keep track of the flow of large amounts of cash and, of course, the act has been somewhat effective in discovering and prosecuting laundering schemes by criminals. But it certainly has become evident that the Bank Secrecy Act is not as effective as possible because of the multimillions of dollars in cash transactions that are subject to reporting which will go unreported by financial institutions across America.

I predict months from now, Mr. Brown, Mr. Wiley, Mr. Dormer, Mr. Colbert, you will say that you were the first to be interrogated but there could be many who followup including many who will never sit where you do today, who were also negligent.

Let me just ask this to Mr. Stankey: The penalty for failure to report these cash transactions under section 5322 C is to be a fine of not more than \$500,000 per day. It says, "For a violation of section 51382, this title or regulation prescribed under section 51382, if a separate violation occurs for each day the violation continues, and at each office, branch or place of business at which a violation occurs or continues."

If, indeed, the Bank of Boston did make a \$1 million profit off the \$1.2 billion they failed to report, how can I justify to my constituents that the fine was \$500,000.

Keep in mind this is a fine of \$500,000 from a bank whose president describes \$2.1 million as "only \$2.1 million."

Why not a million? Why not make them pay back what they gained by this negligence? Negligence is a kind word for it.

Mr. STANKEY. Mr. Congressman, the preagreement was arranged by the U.S. attorney's office in Boston and, in fact, it was pretty well arranged without very much Treasury Department involvement.

Mr. HUBBARD. Where was the arrangement made? Excuse me?

Mr. STANKEY. In the U.S. attorney's office in Boston. It was a criminal case and that was the primary concern at the time.

Mr. HUBBARD. Of course, the inconsistencies with the Justice Department could be the subject of another hearing; that's for sure. For example, the \$1.5 million in 1981 withdrawn from a Miami bank account of our prominent Governor. That was soon forgotten. But you say that's the Justice Department, the U.S. attorney's office. They considered a \$500,000 fine as really socking it to them, in that they made \$1 million profit.

Mr. STANKEY. I really can't comment.

Mr. HUBBARD. Wouldn't you agree with most Americans that a fine of only \$500,000 was ridiculous? No, you're going to play it safe.

Mr. STANKEY. I can't very well comment on the Justice Department's—

Mr. HUBBARD. I can. I think the Justice Department was ridiculous in agreeing to settle for the sum of \$500,000. As the Justice Department is ridiculous on many other things.

Let me ask another question; this one of Mr. Brown.

You suggested that your new procedures will not allow the Angiulo-type situation to happen again but you point out that the branch manager now is required to conduct a background check. How does this solve the problem of whether a branch manager like Mrs. Cushing just happens to be a good friend of a customer like Mr. Angiulo?

Mr. BROWN. Once the branch manager has performed the background check and recommends an exemption, then it goes to the bank administration. Obviously, we have compliance officers there and they, in turn, will have to take a look at the recommended customers on the list, and do their own background check. Then it goes to the law office for the law office to review the data and to give its approval.

Mr. HUBBARD. Last Mr. Chairman—and I notice that my time is about up—Chemical Bank has come forth with \$25.9 million in cash transactions. Your bank, the Bank of Boston, has found another \$110 million which it's failed to report. I would have to agree with our chairman as being very skeptical about all these failures just simply being oversights.

I serve as chairman of the General Oversight and Investigations Subcommittee of this banking committee, and hopefully our subcommittee can join with this particular Financial Institution's Subcommittee, of which Mr. St Germain is chairman, in zeroing in on other institutions which have failed to report.

Hopefully, the word will go out to other bankers across the country that the Banking Committee, and the Subcommittee on Financial Institutions which meets today and the subcommittee I chair, are ready to do whatever is necessary to let the bankers and the regulators know that we intend to stop the flow of illegal money in this country, which is now a river of money. If that means greater fines and criminal sanctions, then we should propose them.

Mr. Chairman, I congratulate you on holding this hearing and for the information we've gathered. One last comment to the gentlemen from Boston, you unfortunately just happen to be the first one on the griddle, but there could and should be many behind you



regarding these bank transactions unreported as violations of the Bank Secrecy Act.

Thank you, Mr. Chairman.

Chairman ST GERMAIN. Mr. Brown, when Mrs. Cushing took her voluntary retirement, where was she employed?

Mr. BROWN. At the North End branch.

Chairman ST GERMAIN. This is the lady who took the \$250,000 or got the \$300,000 in cash?

Mr. BROWN. Mr. Chairman——

Chairman ST GERMAIN. Wait a second—took the \$300,000 in cash. Now, you tell me you couldn't talk to her because you had retained a law firm? Did that law firm say you couldn't transfer her to another location, so as to avoid a repetition of this?

Mr. BROWN. Mr. Chairman, we immediately put her under very close supervision.

Chairman ST GERMAIN. What does that mean?

Mr. BROWN. That means we had an officer assigned to oversee her branch operations. An investigation was going on as far as the Justice Department is concerned, an investigation was going on as far as we were concerned, and the attorneys felt it best that we leave her in place for the time being but with very close supervision.

Chairman ST GERMAIN. Are you telling me that at that point in time you didn't want Mrs. Cushing to know you knew?

Mr. BROWN. She knew we knew.

Chairman ST GERMAIN. Didn't it cross your mind to put a supervisor in there on top of her?

Mr. BROWN. Yes; it did.

Mr. VENTO. Would the chairman yield?

Mr. Brown, don't you have a responsibility for the safety and soundness of your banking institution? Are you going to say that the attorneys are going to limit your ability to deal competently with your own branches?

Mr. BROWN. Not at all. We had her under very close supervision so we knew that nothing of this nature was going to occur again even though she was still physically there.

Mr. VENTO. Well, Mr. Brown, did she have individuals working as clerks and tellers under her that she was directing and was directly responsible to?

Mr. BROWN. Yes.

Mr. VENTO. She could direct those clerks to issue checks and take in deposits; isn't that correct?

Mr. BROWN. Under close supervision, yes.

Mr. VENTO. The point is who's going to interfere with the decision if the clerk came to her and asked her whether or not—he had a \$10,000 deposit here coming from someone who has an exemption or does not have an exemption? How could the supervisor over her be able to limit that?

Mr. BROWN. The exempt list was immediately checked when we received the subpoena. I'm sorry, Mr. Congressman, but all I can really tell you is when an investigation is going on from the Justice Department and from the bank, I feel it's appropriate to listen to counsel. Perhaps I shouldn't have, but I felt it appropriate at that time to listen.

Mr. VENTO. I understand the concern that you didn't want to prejudge the situation and so forth but I still think that a suspension or something—removing someone that you think—you must have suspected there was some problem or you wouldn't have had the individual put under close supervision. I mean, I just think that it was really not a very profound action on your part in terms of dealing with this.

I understand your concern about being objective and not tilting the direction of the investigation but, nevertheless, I think it is not adequate considering your position and the economy and responsibility to the financial institution. It really is frustrating.

Chairman ST GERMAIN. Mr. Brown, when did you first find out that you were supposed to be complying with the regulations that were misread by Mr. Dormer, as far as the reporting of international foreign cash transactions is concerned?

Mr. BROWN. The summer of 1984.

Chairman ST GERMAIN. Mr. Dormer, when did you find out about this, that you should have been reporting those international transactions?

Mr. DORMER. Some time during the summer of 1984 was when we first became aware that it should be filed.

Chairman ST GERMAIN. Mr. Wiley, when did you first become aware of it?

Mr. WILEY. I think I first became aware of it when the bulletin crossed my desk in July 1980.

Chairman ST GERMAIN. What did you do about it then?

Mr. WILEY. I distributed the bulletin to Mr. Tangney, head of banking operations and corporate services, who was ultimately Mr. Dormer's supervisor, and also sent copies in accordance with our standard procedure to the audit department, the law office, and the other interested staff departments.

Chairman ST GERMAIN. You did all this and now you're aware of the fact that these should be reported. Did you then later on—a month or two later—inquire as to whether they had instituted this reporting?

Mr. WILEY. No, I did not, because the standard procedure was that the responsible line managers undertook to implement appropriate regulations and our understanding at that time was that the audit department, as part of its responsibilities, had responsibility either as part of its regular audit examinations or on the basis of a special audit, to confirm that the regulations had been put in place.

Chairman ST GERMAIN. Do you realize what you just told me? I finally found somebody who read the record in 1980 and who admitted it. I'm complimenting you.

Mr. WILEY. As Mr. Brown said, Mr. Chairman, my responsibility was to read the Comptroller's bulletins to the extent of being able to decide where they should be routed.

Chairman ST GERMAIN. Who is the line officer there?

That's a term that you people have been using.

Mr. WILEY. The person with the responsibility for managing a particular department of the business.

Chairman ST GERMAIN. Who would that have been? The name of that person.



Mr. WILEY. The head of the line management chain at that time was Mr. Tangney, who was an executive vice president heading banking operations and corporate services.

Chairman ST GERMAIN. Is he still with the bank?

Mr. WILEY. He is.

Chairman ST GERMAIN. Have you asked him in the past 6 months how come he didn't do anything about it? Since you said it to him, and you understood it, why didn't he understand it?

Mr. WILEY. My understanding, which I think Mr. Dormer can confirm directly is that either in late July or early August 1980, Mr. Tangney, and I believe, Mr. Rubico, who was also on the distribution list from Mr. Tangney, called Mr. Dormer and asked Mr. Dormer whether he had taken care of the matters that were raised in the bulletin.

Chairman ST GERMAIN. Mr. Dormer, tell us about that conversation.

Mr. DORMER. They called and asked me, first, if I had received the bulletin, and, second, if I was complying with it. I said, "Yes, I was." I based my answer on what my understanding was of what I had read in the banking bulletin, and I understand now that my understanding was mistaken; but I was filing a customs form with each and every shipment going out, and a customs form was being filed with each and every shipment or receipt coming in from every foreign transaction. Those forms had been filed since we began the business, in 1977.

Chairman ST GERMAIN. So your understanding was a nonunderstanding? You didn't understand—

Mr. DORMER. The specific forms.

Chairman ST GERMAIN. When they called you, Mr. Tangney and who else?

Mr. DORMER. Mr. Rubico.

Chairman ST GERMAIN. Did they say to you, "Are you filing the new forms and are you filing the reports, CTR reports on filing for cash transactions, cash coming in from foreign banks"?

Mr. DORMER. Am I following the regulation as stated in the banking bulletin in filing the reports. Did they use the term "currency transaction reports"? I do not recall, sir.

Chairman ST GERMAIN. I'm asking you if Mr. Tangney or Mr. Rubico asked you if you had instituted or were now reporting cash transactions with international banks?

Mr. DORMER. Yes, they did. I stated that I was and that I was doing it on a form. I also stated that we had been doing this since we began the business, sir, in 1977, thinking that we had been doing it before it was required by law to be done.

Chairman ST GERMAIN. Do you now feel that you're responsible for a \$500,000 fine because you misread the regulations?

Mr. DORMER. I feel that I have a responsibility for having been filing that form 4789 for which the bank was found guilty, sir.

Chairman ST GERMAIN. So you didn't do what you were supposed to do, and the people above you didn't really inquire into what you were doing? And Mr. Wiley, who said he understood the regulation and realized what should be done didn't find out from Mr. Tangney and Mr. Rubico if Mr. Dormer was doing what was called for.

Mr. DORMER. I can't answer that.

Chairman ST GERMAIN. That's how the scenario plays out. Now, Mr. Wiley, did you read the subpoenas that came out in 1983?

Mr. WILEY. I did not read them in 1983, no.

Chairman ST GERMAIN. Who looked at those?

Mr. WILEY. It would have been those in our legal department.

Chairman ST GERMAIN. In May 1983?

Mr. DORMER. It would have been those in our legal department in the first instance.

Chairman ST GERMAIN. Did you ever see those subpoenas, Mr. Brown?

Mr. BROWN. Not at the original time. I was eventually shown the subpoenas, yes, Mr. Chairman.

Chairman ST GERMAIN. How long afterward?

Mr. BROWN. I don't recall. I would assume sometime in 1984.

Chairman ST GERMAIN. 1984.

In May 1983 you hired outside legal counsel, right, Mr. Wiley?

Mr. WILEY. In January 1984.

Chairman ST GERMAIN. To handle that situation, as well as the \$300,000 in cash. In other words, this subpoena would also cover the \$300,000 in cashier's checks that came to light as a result of the subpoena; right?

Mr. WILEY. Subpoenas beginning in May 1983 were basically directed at the retail transactions in the branches.

Chairman ST GERMAIN. Well, now, sir, did you ever read the subpoena?

Mr. WILEY. Not at that time.

Chairman ST GERMAIN. Do you still feel it was primarily directed to retail?

Mr. WILEY. It was primarily directed at that topic.

Chairman ST GERMAIN. Was it directed to other topics?

Mr. WILEY. In the fourth paragraph of the subpoena, I believe it asks for a list of foreign correspondent banks.

Chairman ST GERMAIN. A list of all foreign correspondent accounts maintaining an account with the First National Bank—maintaining that these are not exempting and recording with the First National Bank.

What they're asking for is the lists of reporting that are required under the Bank Secrecy Act—all currency transaction reports filed and all currency records for the extension of \$10,000. You're not limited to large cash transaction ledgers—lists of persons and entities currently exempted from the Bank Secrecy Act. All signature cards and bank statements in possession—A, B, C, D—I guess I shouldn't be reading that.

But, then, No. 6 is a list of all foreign banks maintaining a correspondent account or other accounts in relation to the First National Bank.

That didn't give you notice of the fact that you were supposed to be maintaining those?

Mr. WILEY. I personally was not aware of the contents of the subpoena at that point in time. I had not read the subpoena, then.

Chairman ST GERMAIN. So again, there is nobody around who knows anything about it? Would you deem this a notice again of the fact that Mr. Dormer should have been filing reports that he

wasn't filing, that the foreign transactions in cash were not exempt?

Mr. WILEY. The subpoena was read by our counsel, and the issue which you are now raising was not raised at that time.

Chairman ST GERMAIN. Who prepared the memorandum concerning the Angiulo transactions at the Bank of Boston?

Mr. WILEY. I am not sure which memo you are referring to.

Chairman ST GERMAIN. It is in the February 21 handouts, and where would that be in here? Would that be 41?

Mr. WILEY. Oh, that is the memorandum that was distributed with the press release on February 21?

Chairman ST GERMAIN. Yes, sir. It would be No. 40 in the list of exhibits.

Mr. WILEY. That was prepared by our outside counsel, Messrs. Ropes and Gray.

Chairman ST GERMAIN. Is there anyone here—Mr. Brown passed it out; right?

Mr. WILEY. I believe—

Chairman ST GERMAIN. That was a handout at the press conference in February?

Mr. WILEY. It was made available by our corporate communications department.

Chairman ST GERMAIN. Mr. Brown passed it out; it was passed out at the time Mr. Brown made his statement?

Mr. WILEY. Yes, by our corporate communications department, which is our public relations department. Mr. Brown did not personally hand it out, to my knowledge.

Chairman ST GERMAIN. So Mr. Brown doesn't know anything about the contents of this?

Mr. BROWN. Let me take a look at it. I am not sure which one you are looking at.

[Pause.]

Yes, I read this, Mr. Chairman.

Chairman ST GERMAIN. OK. Well, now page 2, the last paragraph states: "During the period 1972 to 1983, the bank—"

Mr. BROWN. Excuse me, page 2 what?

Chairman ST GERMAIN. Page 2, last paragraph: "During the period 1972 to 1983, the bank issued frequent reminders, instructions and updates to branch offices concerning domestic currency transaction reporting."

That sounds very, very interesting, but all I was able to find to satisfy that was a memo from Mr. Colbert and a few inquiries from Mr. Stankey.

Do you know of anything else?

You know, those which we have discussed here today. The Cushing-Cox conversation wasn't a memo, but she finally did say, yes, they belong on the list.

Mr. WILEY. I believe, Mr. Chairman, that in the documents that we furnished to your committee staff in response to its inquiries there were copies of at least one, if not more, internal operating instructions prepared within the retail banking department and circulated at that time.

Chairman ST GERMAIN. Yes, Mr. Colbert's. I know of one.

Mr. WILEY. Yes.



Chairman ST GERMAIN. This would make you think that they were coming out off the presses by the thousands. In other words, I was trying to find all these reminders and instructions and updates to branch officers concerning domestic currency transaction reporting, but I could just find the one from Mr. Colbert. That is the one, incidentally, that he signed that went out. Furthermore, he never checked to see if anybody ever complied with it or answered it.

Mr. WILEY. I believe that there are other instructions and directives that are included in the appendix, I believe it is to the basic Ropes & Gray memorandum, which has been delivered to your staff.

Chairman ST GERMAIN. OK, we will check that. For a few minutes I will have staff checking that.

Going to page 5—I am sure Ropes & Gray are being well paid because they did a good job here—“During the period that they were on the list, various individual members of the Angiulo family, who the bank”—listen to this one, ladies and gentlemen—“believed”—see, you can’t get hooked there because they say—“believed were acting on behalf of Huntington and Federal conducted numerous transactions to the bank which would have been reported had the accounts not been exempted.”

Now, Mr. Brown, Mr. Wiley, and Mr. Colbert, I think you will agree that that is inaccurate because they conducted cash transactions that weren’t exempt. They bought cashier’s checks that weren’t reported; correct?

Mr. BROWN. They bought cashier’s checks that were not reported, that is correct.

Chairman ST GERMAIN. Yes. Now, were the Angiulos in this instance—yes or no—acting on behalf of Huntington and Federal?

Mr. BROWN. Well, I can’t tell you, Mr. Chairman.

Chairman ST GERMAIN. In other words, did the bank consider the exemption granted to Huntington and Federal as being a blanket exemption to cover all the Angiulos?

Mr. BROWN. Our branch treated it that way, but it should not have.

Chairman ST GERMAIN. The \$300,000 in cash, you know, in old \$100 bills—those checks were made out and purchased for Huntington Realty. Then they were endorsed over to Angiulo, who then endorsed them over to West Palm—or Palm Beach Atlantic College; right?

Now, it was obvious that this wasn’t for the realty company; right?

Mr. WILEY. Mr. Chairman, I believe that both of those companies were partnerships, and therefore at the branch level it might not have been unreasonable for the branch management—I can’t speak for them—to have perceived the individual Angiulos as acting for the partnerships.

Chairman ST GERMAIN. In other words, you again are using the word “I believe,” but you are not saying, “I know?”

Mr. WILEY. I do not know.

Chairman ST GERMAIN. The memo doesn’t say they know; right?

Mr. WILEY. I do not know.

Chairman ST GERMAIN. Now, here we have the \$300,000 in cash that should have been reported, exemption or no exemption, be-

cause they were used to purchase cashier's checks in an amount in excess of that which is allowable; correct? Yes.

Then we go to page number 6. The top paragraph talks about those same checks, and this says: "None of the purchases of cashier's checks by Huntington, Federal or their representatives was reported on a currency transaction report form."

Well, as a matter of fact, those should have been reported on a different form of each reported cashier's check purchases. Should they not, under the Bank Secrecy Act?

Mr. WILEY. I believe the reporting form is 4789 in that case, the basic report form.

Chairman ST GERMAIN. Yes.

"Huntington has conducted no cash transactions"—at the bottom of the page—"over 10,000 since October 1982, Federal since January of 1980. We are aware of no purchases of cashier's checks by Huntington or Federal, whether or not for cash, since January 1983."

Now, January 1982, Treasury asked for reasons for exempting Huntington and Federal.

Mid-1980, Cox questioned Mrs. Cushing about why the Angiulos were not on the list.

In 1983 a special task force met regarding the Bank Secrecy Act efforts in Massachusetts.

Isn't it peculiar that all of a sudden the Angiulos were no longer dealing with the North End branch? Peculiar and very coincidental.

Now, going to page 7, "Because these customers were on the exempt list, it would have been unnecessary to read and correct the filed reports of their cash transactions."

That is a justification, somewhat repeated by Mr. Brown in some of his other statements, but it says "if they were properly on the list." Right? But that doesn't include cash purchases of cashier's checks, does it, as an exemption?

Mr. WILEY. Mr. Chairman, I believe that under the regulations as they existed prior to the 1980 changes that the regulations were not as explicit as they have been since 1980 and that the exemptions were limited to cash deposits and withdrawals.

So I think the reason why these statements were made in this particular memorandum was that that it was a plausible legal argument, as the regulations stood prior to 1980, that the exempt list could cover, in effect, the purchase of cashier's checks, and we made that argument, in effect, to the Department of Justice in our various discussions with them.

Mr. McKINNEY. Mr. Chairman, I don't know if you want to follow this cashier's check issue through. I had a few questions for Mr. Stankey.

Chairman ST GERMAIN. Well, I will get back to you.

Mr. McKINNEY. All right.

Chairman ST GERMAIN. I just want to finish with this.

Mr. McKINNEY. I hope you will follow cashier's checks through.

Chairman ST GERMAIN. And then "Any suspicion that the bank placed Huntington and Federal on the exempt list to conceal their cash transactions from the Government is unfounded."



Well, then why were they put on the list, Mr. Brown? How did they ever get on the list? Let's go back to that one again. Mrs. Cushing just put them on?

Mr. WILEY. Yes; as we understand it, Mrs. Cushing put them on the exempt list at that point in time.

Chairman ST GERMAIN. Did anyone ask Mrs. Cushing why she put them on, or is that verboten to ask her that pertinent a question?

Mr. WILEY. I believe that question was asked as part of our investigation. I believe her answer was that she felt that under the regulations at the time, as she understood them, and because of the nature of their business, transacting in cash, that it was not improper for her to put them on the exempt list.

Chairman ST GERMAIN. Did she state whether or not they asked or requested to be put on the exempt list, or did she do this of her own volition?

Mr. WILEY. I don't know the answer to that question, Mr. Chairman.

Chairman ST GERMAIN. Logically, Mr. Wiley, do you think people—the Bank of Boston, Mr. Brown, Mr. Colbert—did you put people on these exempt lists just because you felt they should be there, or because they asked to be put on the list?

Mr. COLBERT. Are you directing that question to me, Mr. Chairman?

Chairman ST GERMAIN. I will direct it to you, Mr. Brown, and Mr. Wiley.

Mr. COLBERT. I believe that the bank put them on the list without asking the customer.

Chairman ST GERMAIN. Or without the customer's asking?

Mr. COLBERT. Yes.

Mr. WILEY. Mr. Chairman, I would like to make one other point on this particular sentence. The reason for this sentence being in the memorandum was that, in effect, by placing a customer on the exempt list, and the exempt list of course being available under the regulations for inspection by the Treasury Department at any point in time, that therefore there was no concealment or attempt to conceal anything.

In other words, the fact that these two companies were on the exempt list in effect flagged the names of those companies.

Chairman ST GERMAIN. Yes, but wouldn't they be flagged if they weren't on the exempt list and the reports were filed on cash transactions?

Mr. WILEY. Yes. Either the reports would be filed or they were on the exempt list.

Chairman ST GERMAIN. So that is a ridiculous argument because in any event, they are either on an exempt list or no reports are filed. If they are not on the exempt lists, reports are filed.

Mr. WILEY. In either case, the information is available to the Treasury, Mr. Chairman.

Chairman ST GERMAIN. Going back to your argument about the cashier's checks, had Huntington and Federal not been on the exempt list, that \$300,000 in cash purchases for cashier's checks would have been reported; would it not?

Mr. WILEY. Yes; it would.

Chairman ST GERMAIN. Right. So that argument smacks of ridiculousness.

I have been reading that, hearing that, and seeing it. It is preposterous. It is tortured reasoning.

"Bank employees made absolutely no effort to conceal the cash transactions conducted by Huntington and Federal."

Oh, they didn't make any effort. They just didn't report them. That is page 8 at the top. "Bank employees made absolutely no effort to conceal the cash transactions conducted by Huntington and Federal."

Mr. Wiley, if you don't report something, isn't that concealment?

Mr. WILEY. Mr. Chairman—

Chairman ST GERMAIN. If it is now established that the cashier's checks and that \$300,000 should have been reported?

Mr. WILEY. Even though, Mr. Chairman, I think you don't really sympathize with the argument, I would like to point out that the basis for these statements about no attempts to conceal is because the names of the companies were on the exempt list.

And, if my memory serves me correctly, I believe that among the many studies made on the history under the Bank Secrecy Act that, sometime a few years back, the General Accounting Office made a study of enforcement activities under the Bank Secrecy Act and, among other things, made the observation that they felt that the maintenance of exempt lists and their availability to the Treasury was, in effect, a form of useful enforcement tool from the Treasury's point of view, and I think that—

Chairman ST GERMAIN. When did you find this out, Mr. Wiley?

Mr. WILEY. In the course of our additional research into the entire background of the Bank Secrecy Act and all of the hearings that had been held upon it.

Chairman ST GERMAIN. When? I asked you when you found this out?

Mr. WILEY. When did we find this out?

Chairman ST GERMAIN. Yes.

Mr. WILEY. I think during the course of the last year.

Chairman ST GERMAIN. Oh. Too bad you weren't as assiduous in studying the new regulations from Treasury; right? You wouldn't have to have done all this research now.

Mr. WILEY. That is correct, Mr. Chairman.

Chairman ST GERMAIN. But, Mr. Brown and Mr. Wiley, do you—despite all of that wonderful verbiage—agree that bringing in \$250,000 on one day in the United States of America in Boston, MA, at the North End branch is unusual? Don't you think not mentioning it to anybody is a form of concealment?

Mr. BROWN. It is very unusual. I agree with you, Mr. Chairman.

Chairman ST GERMAIN. Thank you.

[Pause.]

I am looking at pages 10 and 11: "After June 1982, Federal conducted no cash transactions in amounts sufficient to trigger reporting because of the act, and Huntington conducted two such transactions after June 1982 but none after October 1982."

When I read that, I almost get the feeling that Huntington and Federal somehow or other knew about the special task force and the inquiries from Treasury looking for more information as to

why the exemptions should exist. That is the reaction I get when I read that.

Who asked last?

Mr. VENTO.

Mr. VENTO. Mr. Colbert, you pointed out that you had 44 exemptions today to the cash reporting law?

Mr. COLBERT. I believe that is correct.

Mr. VENTO. What did you have previously? I mean, having the exemptions indicates that someone understands something about the law. I mean, how many exemptions existed prior to the date that the charges were brought in 1983? I mean, there obviously were two more.

Mr. COLBERT. I would think it was around 70 or 75.

Mr. VENTO. Seventy or seventy-five. So obviously, there was a re-evaluation of those exemptions based on some legal—inside or outside counsel, is that accurate?

Mr. COLBERT. Yes.

Mr. VENTO. Mr. Colbert, are you on the panel—who is responsible at the Bank of Boston for dealing with the cash transactions that occur? I mean, this is a big business, you have many cash transactions. Now, we are talking about exemptions here, the special exceptions, but there are other businesses by the Treasury's regulations which are completely exempted—retail establishments, bars. I can't remember the entire list, but I am sure that you are familiar with them. And who at the bank is responsible for the cash transaction activity? Is there any single person that has that as their forte or responsibility?

Mr. COLBERT. As Mr. Brown has indicated, in our new organizational structure, each area has a compliance officer.

Mr. VENTO. Did you have anyone—not each area has a compliance officer but there was no one singularly responsible prior to the charges being leveled in 1983, is that correct?

Mr. COLBERT. Mr. Cox was our compliance officer from 1979, I believe.

Mr. VENTO. Mr. Cox, I asked one of the staff about them, that it is sort of surprising to me that he isn't here today but I understand he is in ill health and could not be present. So I guess I'm concerned about that because what volume of cash transactions or deposits coming in, or cashier checks going out, I suppose they ought to balance at some point. I suppose they do.

But what is the volume in a week, today. What was it earlier? What was it prior, during 1983? Can you give me any type of ballpark figure with regards to that?

Mr. COLBERT. I'm sorry. I could not.

Mr. VENTO. Can you give me any either before or after, or is there any type of—you must keep some sort of track of how much cash is coming in. Obviously, there must be records that that could be compiled, Mr. Colbert.

Mr. COLBERT. Our total teletransactions are running about 10 million a year.

Mr. VENTO. Ten million a year?

Mr. COLBERT. Total teletransactions.

Mr. VENTO. That's of all the cash that is brought in as deposits?



Mr. COLBERT. Actually, this is not just teletransactions; it includes automated teller machines as well.

Mr. VENTO. So when everything is added up there's only 10 million dollars' worth of cash transactions?

Mr. COLBERT. Transactions.

Mr. VENTO. 10,000 transactions, each worth maybe \$1,000; right?

Mr. COLBERT. Yes, it could be.

Mr. VENTO. Well, it would have to be. Some are worth millions, I guess.

Chairman ST GERMAIN. Did I hear him say "\$10 million?"

Mr. VENTO. He said "\$10,000," I thought.

Mr. COLBERT. Transactions.

Mr. VENTO. Transactions.

Mr. COLBERT. Ten million transactions per year.

Mr. VENTO. Ten million transactions a year.

Mr. COLBERT. Teller and automated machines.

Mr. VENTO. OK, but I mean, my point isn't that. Of course, I'm trying to get this down to the—all I'm trying to do is I understand there are a lot of transactions with checks and everything else coming in, and so forth. But I'm just asking about the cash now. That makes up a significantly smaller amount of that particular volume, I suspect.

Mr. COLBERT. I'm sorry, I don't have that information.

Mr. VENTO. You have no idea?

Chairman ST GERMAIN. Does he have any idea of how many cash transactions per year fall into the \$50,000 to \$100,000 category?

Mr. VENTO. Well, Mr. Chairman, that's the point, of course, I'm trying to get at, is that we only have 44 exceptions today. There were 70 or 75. Of course, you have many businesses, borrowers and others, that are exempt.

Do you have any idea how many businesses are exempt that you do business with that are exempt from these cash transactions today, do you, Mr. Colbert?

Mr. COLBERT. Mr. Dormer was interrupting my train of thought here. Could you please repeat that question?

Mr. VENTO. Do you have any idea the number of businesses, the number of customers that you have, such a borrowers and others, that are exempt under Treasury regulation, without a special exemption?

Mr. COLBERT. No, I'm sorry. We have 260,000 to 270,000 deposit DDA commercial type of deposits. So I really couldn't tell you.

Mr. VENTO. Does anyone on the panel—Mr. Brown, do you have any idea of the numbers that we're talking about here? Could you help in terms of responding? Or, Mr. Dormer, do you have any idea?

Mr. BROWN. The numbers of businesses on the exempt list?

Mr. VENTO. Well, I think I have it at—

Mr. BROWN. Forty-four, as far as I know.

Mr. VENTO. The 44, I have.

Mr. BROWN. That's the total number, isn't it, Mr. Colbert?

Mr. COLBERT. But I don't think that's the question he asked, Mr. Brown.

Mr. BROWN. Well, I don't know. What was it? That's what I thought it was.

Mr. DORMER. He's asking the number of business accounts that the Bank of Boston has. Is that your question?

Mr. VENTO. That's right, that are not required to report or not required to have an exemption.

Mr. DORMER. Many of the business accounts do not deal with cash.

Mr. VENTO. I know, many do not, but there are others that deal in cash that are not required to have an exemption, such as borrowers, and others, as I understand the regulation.

Mr. BROWN. Mr. Congressman, I don't think we'd have the number here.

Mr. VENTO. What I'm trying to do, Mr. Brown, is get some idea of the magnitude of the problem that you face in terms of tracing this. In other words, obviously, my point the chairman makes is that if you have someone bringing in \$250,000, that is a very unusual circumstance.

Normally, I expect, when you're dealing with borrowers, you're dealing with retail establishments. From day to day, they deal with it. They may be bringing in a couple of thousand dollars a day, you know; that's generally what happens.

Mr. BROWN. Over \$250,000 would be very unusual.

Mr. VENTO. Very unusual. And it would be a significant amount of the cash transactions that were done, certainly at a branch.

Mr. BROWN. Oh, absolutely.

Mr. VENTO. And, certainly, even within the whole context of the bank, is that correct?

Mr. BROWN. Yes.

Mr. VENTO. Even with all of its branches.

Mr. BROWN. Yes, other than a shipment from overseas, or a transfer from a correspondent bank, or something like that.

Mr. VENTO. Well, I know, and I see those in here and I look at them and I see over a period of time that even some of those that are being reported now, because, under the law, they were not reported and your counsel's memo indicates that they are being reported now, indicates that.

So I mean, I'm just trying to, you know, and I notice that there are only 44 special exemptions today; there are only 70 or 75 before.

And I'm trying to get an idea what, Mr. Colbert, let's just look at the special exemptions. What type of volume of money are we dealing with there?

Mr. COLBERT. I don't have that number either. I'm sorry.

Mr. VENTO. I mean, you have no idea what the amount is that they would be dealing with? Do you keep any special tracking? Or, did you ever keep any tracking of the special exemptions cash transactions?

Mr. COLBERT. No. I—

Mr. VENTO. Prior to 1983. Today, apparently, you do, I suppose.

Mr. COLBERT. I believe the largest exemption that I can think of on my side is \$100,000.

Mr. VENTO. The largest exemption that you can think of is a \$100,000 transaction. And that goes over a period of how many years?

Mr. COLBERT. No, this would be for a day.



Mr. VENTO. For a single day.

Mr. COLBERT. Yes.

Mr. VENTO. Well, I mean, that's the largest exception that you can think of, is \$100,000. But I'm trying to say, in relation to what?

Mr. COLBERT. I'm talking about the exempt limit.

Mr. VENTO. The exempt limit.

Mr. COLBERT. Yes.

Mr. VENTO. \$100,000 a day. Is that a new regulation or bank rule, or what is going on with that? Where did that exemption come from? Where did that limit come from?

Mr. DORMER. What he's referring to are the types of firms on an exempt list. If it's a gas station—

Mr. VENTO. Oh, I see. OK.

Mr. DORMER. If it's a gas station or a car wash, it might be exempt for \$10,000 a day. But if it's Suffolk Downs, they might be exempt for \$50,000 a day. So that's what he means.

Mr. VENTO. But, I think, Mr. Chairman, that we have to have an idea of the magnitude of these cash transactions, both the exempt and those that are provided for in the regulation, in order to understand because, obviously, I mean, what really is the only barrier between some of these characters that are trying to utilize this money this way is simply to buy a bar. And then, all of a sudden, no exemption is necessary and they could proceed along the lines that—

Mr. DORMER. There may be a misunderstanding, Mr. Congressman. Simply because you have a bar doesn't mean you can report unlimited cash. Under our system today, for anyone that is bringing in \$10,000, a currency transaction report would be filed, unless they're on this exempt list of 44.

Mr. VENTO. OK.

Mr. BROWN. Mr. Chairman, would it be possible to take a 5-minute break?

Chairman ST GERMAIN. Well, certainly. The subcommittee will be in recess for 10 minutes.

Mr. BROWN. Thank you.

Chairman ST GERMAIN. The subcommittee will come to order.

The Chair recognizes Mr. Roth.

Mr. ROTH. Thank you very much, Mr. Chairman.

I have two short questions. The first would be, taking human nature into consideration, when you close the spigot off someplace, a leak is possible to develop in another place, especially if there's enough pressure. I would think that with all the money involved there is going to be, you know, a great deal of pressure in some areas, and given the substantial bribes that could be used, what internal system do you have to detect corruption of employees by, say, organized crime?

Mr. BROWN. Dick do you feel qualified to respond to that?

Mr. WILEY. Several different things, Congressman Roth.

First, we have had—and for some years—a very clear, very complete personnel policy, a basic corporate policy on ethics and proper corporate behavior.

In that policy we have very strict rules as to anything that might resemble a conflict of interest or any kind of improper conduct on the part of our officers and employees.

We circulate that policy once each year to all of our officers and our personnel and they are required to sign and certify that they have reread it each year and send it back. We also have procedures where we call for them to report individually and get clearance for any types of outside relationships, for example, outside directorships or taking on roles with certain outside organizations. So there's a definite code of ethics, and it is brought to people's attention at regular intervals at least once a year.

Second, our managers, both in the line or business departments and in the staff departments, are continuously made aware of the importance of integrity, ethical standards, and the like. The audit department is charged with responsibility in its regular audits of divisions and departments, and also in special audits to be particularly alert to the sort of question that you are raising and to report immediately anything that might indicate improper conduct, fraud, anyone attempting to abuse the assets of the bank or to do anything with outsiders which, in effect, would be contrary to the bank's best interest. I think that these systems over the years have basically been relatively effective.

Mr. ROTH. Do you have, in your legal department, someone that polices or reviews what takes place, I mean, something like a regulator coming in or someone that will review the conduct of the branch bank—of the branch managers and so on. As I interpret what you're saying, you've got a good policy statement but that really doesn't have any teeth in it. If someone is going to take a bribe and circumvent the law or do things that are not ethical, he signs a paper, well that doesn't add any teeth to that.

Mr. BROWN. Congressman, this is not responsive. I know what you're asking but to the degree that we have picked up fraud in the institution, it's been a result of people's changing lifestyle. Their fellow employees report it and then we investigate it.

That still isn't responsive to the question you asked. The question you asked is one of the things that we have been talking about, but we don't have a solution when we talk about know your customer issues. I think you're absolutely right: If the banks do the job that we should be doing and in my opinion we will be doing in the future, there's no question that the pressure is going to be on some other place. And it could be through direct bribes.

Mr. ROTH. Well, I would think, you know, this would be one area where you and the board of directors and other banks too, I mean, are going to have to ask themselves, how are we going to, you know, with all this money floating around, something is going to happen. And we're going to have to get some sort of a policing system. I would think that you would be concerned about that and would probably followup with.

Mr. BROWN. Thank you. We are and it's a difficult area but we've already had discussions about it.

Mr. ROTH. Mr. Brown, in your testimony on page 9, you talk about "The branch manager is required to conduct the background check so that the customer meets standards that are required by the regulations." What kind of a background check does he do?

Suppose I'm a branch manager. How do I report—for example, to someone like yourself or someone in the position that's over me—

that I've made an adequate check. What kind of a check would I have to make on Mr. X coming in?

Mr. BROWN. In this case, if someone is applying to be on the exempt list it would be more like a background check for credit.

And, as the chairman suggested earlier, when large cash transactions were coming in, perhaps we should have done a background check on the individual or their companies. It would be similar to what we do when someone applies for credit. We could get credit reports on them; we'd look at our own files; and we might well make personal inquiries.

Once that's done, we're not going to be relying just on the branch managers any more. As I told you, they will submit their list and once that's submitted, we will have another compliance officer at the metropolitan division do their own check. So we'll have a doublecheck. Then it has to go to the law office at that point. These are two different routes that they're going to have to go through that they haven't had to go through before.

I think it's going to be difficult for someone to get a name on the exempt list.

Mr. ROTH. Well, I appreciate your response. I don't know how satisfactory it is. I would want to give you a little anecdote to tell you how the people back in our districts feel about it.

Last weekend I had the Secretary of Agriculture with me and we went back to Wisconsin and we were talking about some of the different issues and as we were touring one of the dairy farms, one of the people I'd mentioned about the banking industry. The dairy farmer of Wisconsin said to me, you know, it's impossible to believe that these fellows out of the Bank of Boston didn't know what was going on.

I think that's a general perception around the country. I just thought I'd make that comment to you, Mr. Brown.

Mr. BROWN. Thank you, Congressman Roth.

Chairman ST GERMAIN. Mr. Stankey, I believe you'd like to expostulate on the cashier's checks and the requirement for reporting cashier's checks, those purchased with cash, et cetera.

Mr. STANKEY. Yes, Mr. Chairman, I wasn't certain from the discussion that it was perfectly clear that any transaction other than deposits and withdrawals should trigger a currency transaction report after the regulations are changed in 1980, that it doesn't make any difference whether someone's on an exempt list or not. If they purchase a cashier's check in excess of \$10,000 with currency, a form 4789 should be filed. Perhaps prior to that time any unusual cashier's check transaction should have been reported even though the bank had greater latitude.

Chairman ST GERMAIN. Mr. Wiley, do you disagree with that?

Mr. WILEY. No, not at all. I believe what Mr. Stankey said is substantially the same as what I said earlier.

Chairman ST GERMAIN. Well, you must feel much better, Mr. Stankey.

Mr. STANKEY. Thank you.

Chairman ST GERMAIN. I have a few lines of questions here, but I'd be happy to recognize whichever members would like to be recognized.

Mr. WYLIE. One question on the checks.



Maybe this has come up but I'm sorry I haven't been able to be here all day, but does your experience with the reporting requirements lead you to believe that the retention of nonbearer checks, as a financial instrument exempt from the reporting requirements, may undermine all attempts to stop money laundering.

Mr. STANKEY. Well, the requirement to file currency transaction reports with respect to the purchase of official checks, extends to any kind of official check, whether it's payable to an individual or bearer or whatever.

Mr. WYLIE. But I understand a nonbearer check—it's not required that that be reported under the reporting requirements.

Mr. STANKEY. Well, it's not required to be reported if it's transported internationally and I think you are referring to a different reporting requirement, the customs form 4790, which is required to be filed in connection with the international transportation of either currency or monetary instruments in excess of \$10,000. And the definition of monetary instrument generally includes negotiable instruments in bearer form or the equivalent.

Mr. WYLIE. Could that undermine your attempts at stopping money laundering if it's in bearer form. You say that the requirement is that if the check is in bearer form, it has to be reported but if it's in nonbearer form, it doesn't have to be reported.

Mr. STANKEY. That's with respect to the international transportation of a check. If we're talking about the purchase of checks at banks, it's not material whether or not it's in bearer form or payable to the specific person and unendorsed. They all have to be reported at the time they're purchased if the check is in excess of \$10,000 and it's purchased with currency.

Mr. WYLIE. What about when a cashier check for a substantial amount is deposited.

Mr. STANKEY. There's no reporting requirement because I think in the past it has been conceded that it's not unusual for people to use cashier's checks in business and legitimately so.

Mr. WYLIE. So could a cashier's check be used to launder money?

Mr. STANKEY. I'm certain that they can and are. I think some of the—

Mr. WYLIE. Should we include cashier's checks in the reporting requirement?

Mr. STANKEY. It's possible that—

Mr. WYLIE. It's probably something we should ask the Comptroller, and I'm trying to ask you this.

Mr. STANKEY. Well, it's possible the reporting requirements could be amended in a certain way to cover certain types of cashier's checks that are being used to be deposited or exchanged for other types of cashier's checks. That's an area that is being looked at at the present time.

Mr. WYLIE. Let me repeat, if I may, and I don't want to delay this, but did I understand you to say that cashier's checks do not have to be reported?

Mr. STANKEY. Cashier's checks that are being transported internationally do not have to be reported to the customs service unless they're in bearer form.

Mr. WYLIE. In any amount?

Mr. STANKEY. In any amount.

Mr. WYLIE. So that would be a good way to launder money; that's my question.

Mr. STANKEY. Well, usually when you were talking about laundering money, the first step is converting currency into some other form.

Mr. WYLIE. Right.

Mr. STANKEY. And that's what most of these efforts are all about. So, if you go into a bank and buy a cashier's check in excess of \$10,000 with currency, the bank is obligated to file a report regardless of whether you're on an exempt list or who you are, there's only one area that's exempt and that's—if the bank wants to it can exempt government agencies. Otherwise, it must file a report with respect to every cashier's check in excess of \$10,000 that's purchased with currency, and at that point that information should be brought to the attention of the Treasury Department.

Mr. WYLIE. Thank you.

Chairman ST GERMAIN. Mr. Roemer.

Mr. ROEMER. Thank you, Mr. Chairman.

Mr. Brown, by the way, Jim Cooper was talking earlier about some personal responsibility, maybe in this law, to make it more meaningful. I lived in Boston 7 years, I know this accent hides that. Maybe we ought to take away the card for a year or something. There's got to be some way to bring this down personally. I didn't mean to put you too much on the spot a while ago. I wasn't after you saying that you would review certain lists necessarily.

What I was after and still have not received, is a statement by you representing your bank that the business of laundering excessive cash, the attempts by crime and its organizers to take more benign forms, is a responsibility of the banking system that, unfortunately, you're in the position of being subject to misuse by others and the Bank of Boston will set an example for our country at A, working with the Congress, B, with the regulators and, C, with the public to disclose and expose and make it as difficult as possible for this kind of activity to continue.

That's all I want you to say, Mr. Brown. I'm not trying to change the world. I'd just like for your bank through you to make me feel—very naive, I admit it—but make me feel that you give a damn about this problem.

Mr. BROWN. Mr. Congressman, I could not agree any more with what you said. I agree with it 100 percent. I believe I really said that but I'll be happy to repeat it here. I really have said that in all of my statements.

I have said we, in the banking industry, do have a responsibility to work with the regulatory agencies. We do have a responsibility of recognizing and trying to ferret out illegitimate uses of the banking system, absolutely.

I must have misunderstood what you were saying. I couldn't agree with you more. And I can pledge to you that we, at the First National Bank of Boston, are going to do everything possible to do just that.

Mr. ROEMER. Well, I'm glad to hear you say that. And maybe I'm guilty of reading your body language differently. You know, the body language that says, "See no evil, hear no evil." The body language that says, "Oh, it was somebody's fault." The body language



that says, "It fell through the cracks." The body language that says, "I know this regulation's important to you fellows but not really to us."

All those signs say just the opposite of what you just said. All those signs say, "I don't care. That while profit is important it comes before anything else, even more than this."

I just wanted you to shatter the image that I felt you were giving. And I think, I hope inadvertently, you were given the wrong signs, at least to me; I'll just speak for myself.

Mr. BROWN. Well, I am sorry if you were getting those signs. All I've been trying to do today is simply be as responsive as possible to the questions as I understand them and know them through our investigation.

I'm not trying to deny any responsibility, as I said in my statement. Of course, I'm responsible. I understand that. And I also said in my statement practically word for word, everything that you've said. And I couldn't agree with you more.

Mr. ROEMER. Well, I thank you for saying that.

And, Mr. Chairman, I thank you for the hearings and I'll close by saying that I would have felt more comfortable for the last 5½ hours if in your opening statement you had said, "We have made an error here, but it's one we will not make again. And I pledge to the banking industry and to the Congress that we're going to be a leader in closing down these kinds of avoidance loopholes." I'd have felt much better, Mr. Brown.

Mr. BROWN. Mr. Roemer, that is a pledge I will accept as mine.

Mr. ROEMER. I'm glad to hear it, thanks.

Chairman ST GERMAIN. I'm curious about something—\$250,000—the North End branch—does anyone here from the Bank of Boston know what the average amount of cash is that goes through that branch per day?

Mr. DORMER. I made an incorrect statement earlier, sir. I meant to say \$1 million monthly rather than \$1 million annually, to some gentleman's question earlier.

Chairman ST GERMAIN. That's through the North End branch?

Mr. DORMER. To the North End branch; correct.

Chairman ST GERMAIN. Right. Now, let me ask you this.

Mr. DORMER. I've got your next question. I'm trying to figure out what the number normally would be. I can't give you the number to the penny, but I can come up with a reasonably close calculation, if you'll give me a couple of seconds.

Chairman ST GERMAIN. Sure.

Mr. DORMER. They do not retain large amounts of money in a branch, from a security point of view.

Chairman ST GERMAIN. Sure.

Mr. DORMER. Going from our department to that branch, a normal amount would be in the neighborhood of \$300,00 to \$500,000 per month; and coming from the branch to our department would probably be something shy of that, I would say in the \$200,000 to \$400,000 range. I may be off some, but that would be a normal—

Chairman ST GERMAIN. That's for a month.

Mr. DORMER. Per month; yes.

Chairman ST GERMAIN. Per month, \$250,000 came into the North End branch in \$100 bills, used \$100 bills on February 13, 1980; correct?

Mr. DORMER. Yes, sir.

Chairman ST GERMAIN. What happened with that container with \$250,000 in \$100 bills?

Mr. DORMER. I do not know. I can tell you it would normally have been shipped to the coin and currency department. I was not in that department at that time, sir, so I can't absolutely tell you.

Chairman ST GERMAIN. Mr. Brown, what would happen with that?

Mr. BROWN. All bulk currency, wholesale currency would have gone to coin and currency, Mr. Chairman.

Chairman ST GERMAIN. OK. Now who was in coin and currency at that point in time? February 13, 1980.

Mr. BROWN. The former manager was Mr. Bergstrom, but I don't know whether he was there at that time. He had had a heart attack and been out for several months, and I don't know whether someone was substituting for him or not, Mr. Chairman.

Chairman ST GERMAIN. Well, the question is, \$250,000, as we agreed, that takes a big container to carry that from the North End branch to the coin and currency; right?

Mr. DORMER. No, it does not, Mr. Chairman. \$250,000 in hundreds is a package 6 inches wide, 2½ inches tall and 16 inches long.

Chairman ST GERMAIN. Well, that's rather large, isn't it? But these are used too. They don't take up more room than new ones?

Mr. DORMER. Used bills take up almost twice the room.

Chairman ST GERMAIN. OK. No, but that's an unusual amount of \$100 bills to come in from the North End branch.

Mr. DORMER. Yes, I would agree with that.

Chairman ST GERMAIN. Wonderful. Now if you were sitting in coin and currency on February 13, 1980, when that \$250,000 came in, what would your reaction be, Mr. Dormer?

Mr. DORMER. I may not have known about a single \$250,000 transaction in \$100 bills. In our department, we will handle a large multiple of that number in \$100 bills on a daily basis from the over 240 banks and our own 30 branches that we service.

Chairman ST GERMAIN. Now this is coming in from a branch that ordinarily, on a monthly basis, sends you \$200,000 to \$300,000 and in 1 day, you get \$250,000. Everybody looks the other way. Is that what you're telling me?

Mr. DORMER. No, that is not—

Chairman ST GERMAIN. It's not worthy of note anyplace. I am just wondering, what did you do with the \$250,000 in cash?

Mr. DORMER. I have had a trigger mechanism in place for some 3-plus years. That transaction would be brought to my attention. What I am trying to say, Mr. Chairman, is that \$250,000 as a percentage of the total volume that goes through my department, would not normally, by itself, be a trigger for me to be made aware of it, although from a branch it would.

Chairman ST GERMAIN. But that's what I'm asking you, Mr. Dormer.

Mr. DORMER. It is in place now. I was not there on February 13 or 14 in 1980—I don't remember the date.

Chairman ST GERMAIN. Well, what I'm asking you, Mr. Dormer, is—I believe you're saying that you put a trigger in, because you feel that if \$250,000 comes in from a branch that normally sends you \$200,000 to \$300,000 per month, that you should be made aware of it.

Mr. DORMER. Yes, sir.

Chairman ST GERMAIN. Why?

Mr. DORMER. It is unusual.

Chairman ST GERMAIN. Now, if it's unusual today, wasn't it unusual on February 13, 1980?

Mr. DORMER. I would say it would have been.

Chairman ST GERMAIN. You're saying that your predecessor did not have any triggers for unusual items?

Mr. DORMER. I cannot speak for his triggers, Mr. Chairman. Actually from the day before Thanksgiving 1979, until March 1980, there was an interim manager in there.

Chairman ST GERMAIN. This is the most fascinating—fascinating—you know, we could write a—when I heard about Watergate, initially, you know, I said, "It can't be true." If you wrote a book about Watergate, nobody would believe it.

I got news for you. When we get through with the Bank of Boston, somebody is going to write a book, and no one's going to believe it.

Conveniently, somebody's got a heart attack. Somebody's doctor says—Mrs. Cushing, she's—you can't talk to her because of lawyers. Now you tell me that there's an interim manager at the time the \$250,000 came in.

You talk about a set of coincidences. The Bank of Boston is writing a new book. Might be a new game to follow—"Trivial Pursuit." It will be called "Bank of Boston—Coincidences and Unusual Happenstances."

The Chair is going to go through Mr. Brown's testimony. Anyone can interrupt me at any time.

Mr. Brown, you say you were alerted to the bank's failure to file foreign currency shipment reports in the summer of 1984. I discussed those subpoenas earlier, those that were issued in May 1983. Mr. Wylie asked you about them also. And that would seem to have indicated, that there was something amiss in the international currency filings.

Why do you think, Mr. Brown, it took so long for anyone to come up with the fact that you weren't filing these international currency reports that you should have been filing?

Mr. BROWN. Well, Mr. Chairman, as I—

Chairman ST GERMAIN. This is the roundup, the last roundup now.

Mr. BROWN. What's that?

Chairman ST GERMAIN. This is the last roundup.

Mr. BROWN. Oh, the last round.

Chairman ST GERMAIN. No, no. I'm going through the last roundup to put all of this in perspective—maybe you've got something new to add to this.

Mr. BROWN. Well, when the subpoenas came in, they immediately went right to the head of our law office, Mr. Griffin, and he's got a large staff of lawyers there. They focused on the subpoenas and



then I read the subpoenas sometime later. There are a lot of them. I didn't read all of them, but I did see one or two of the earlier subpoenas. They focused on domestic issues, based on what I was told, and they did not focus on the international issue.

Chairman ST GERMAIN. We now know that they, indeed, did ask about international transactions as well, having read them half an hour ago.

Mr. BROWN. Well, as I understand it that——

Chairman ST GERMAIN. Having read them half an hour ago.

Mr. BROWN. As I understand it; yes.

Chairman ST GERMAIN. OK. Now, Mr. Brown, how many times between 1980 and 1984, would your internal auditors have examined the exempt list and the international transactions during a Bank Secrecy audit in the branches, in Mr. Bert Cox's office or the coin and currency office? Did they ever find any of the problems that were uncovered in February this year that you disclosed last week?

Mr. BROWN. No.

Chairman ST GERMAIN. Do you know how often the auditors went through?

Mr. BROWN. I don't. Do you have any idea, Dick?

Mr. WILEY. As far as the coin and currency department is concerned, Mr. Dormer's department, I don't think that the audit department ever audited them for Bank Secrecy Act compliance, and as far as the Suffolk County branches under Mr. Colbert's management are concerned, those branches were audited on a regularly scheduled basis by the audit department, and the audit department did have on its sort of workpaper checklist certain questions that they asked as to Bank Secrecy Act compliance. I believe that they did ask those questions and get whatever responses they felt were appropriate as part of their regular branch audits.

Chairman ST GERMAIN. As a result of that, they didn't raise any red flags?

Mr. WILEY. Not as far as I'm aware.

Chairman ST GERMAIN. Don't feel too badly, because we're going to ask you to stay around and listen to the Comptroller and take a look at some of their examination reports, where they check off "hunky dory," and "everything's fine." You're not alone.

By the same token, we understand that the Bank of Boston now is going to talk to the internal auditors and say, "Hey, we can do a little better job in the future; can't we?" Mr. Brown?

Mr. BROWN. Yes, Mr. Chairman, they will do a better job in the future.

Chairman ST GERMAIN. Did they have a requirement to look into the requirements of Bank Secrecy? The internal auditors? Were you aware of that?

Mr. WILEY. Yes; as I just indicated, they had on their standard checklist of things to ask about several questions to do with Bank Secrecy Act compliance.

Chairman ST GERMAIN. Mr. Colbert, in Mr. Brown's testimony, he tells about the Cox-Cushing conversation, and you told us that you did talk to Mr. Cox about his conversation with Mrs. Cushing; right?

Mr. COLBERT. Yes.



Chairman ST GERMAIN. But you didn't do anything in response to that conversation?

Mr. COLBERT. It was after the fact, I am sorry to say. It was in May 1983 and——

Chairman ST GERMAIN. You just let it go?

Mr. COLBERT. Well, we took them off——

Chairman ST GERMAIN. Did you tell Mr. Cox that he had responsibilities here, and he should be a little firmer in the future?

Mr. COLBERT. I actually took the responsibility away from him at that time.

Chairman ST GERMAIN. Mr. Brown, you say there will now be a central compliance officer who will review all CTR's?

Now would that have been Mr. Colbert in the past? Was that his function in the past?

Mr. BROWN. Well, Mr. Cox was the only compliance officer we had, and he did report to Mr. Colbert in the past.

Chairman ST GERMAIN. All right. Now you're telling us that the compliance officer will be someone at a higher level than Mr. Colbert or Mr. Cox?

Mr. BROWN. Yes; that's correct.

Chairman ST GERMAIN. Did I understand that properly?

Mr. BROWN. There will be basically three levels of officers. We will have a compliance officer in each unit. We will have a compliance officer in branch administration, and then we will have the central compliance officer at the corporate level, and as Mr. Wiley indicated earlier, that will be someone at the level of, say, a senior vice president.

Chairman ST GERMAIN. Is there a Mr. Saleno being considered—is that the wrong name—for compliance officer?

Mr. WILEY. I believe you're referring to Mr. Joseph Salorio. He is the gentleman who, as Mr. Colbert has just indicated, replaced Mr. Cox in the early summer of 1983 as the compliance officer in the retail branch operations division. Mr. Salorio has been exercising those responsibilities for the last several years, but then on top of what Mr. Salorio has been doing, we are going to place the structure which Mr. Brown and I have each described.

Chairman ST GERMAIN. Oh, after 1983, Mr. Salorio was the fellow Mrs. Cushing was supposed to report to on compliance?

Mr. WILEY. Let me check with Mr. Colbert. I believe that's correct.

Mr. COLBERT. Yes.

Chairman ST GERMAIN. We didn't get anything on him and his relations. How did he do with Mrs. Cushing? Obviously, not too good, huh?

[No response.]

Chairman ST GERMAIN. Mr. Brown, in next to last paragraph of your statement, you talk about your willingness to cooperate in the Boston Bank Secrecy Act—Bank Secrecy laws.

Now by the same token, at your bank's annual meeting last week, when you seemed to be saying that bank-to-bank international transfers were a closed system and any money laundering outside that system really was not your concern. In other words, if a Swiss bank transfers funds to you, or you to a Swiss bank, you

could care less about the source of those funds; isn't that what you were saying?

Mr. BROWN. No, Mr. Chairman, I certainly did not. What I said was that we had no way of knowing the source of the funds that came into the Swiss bank.

Chairman ST GERMAIN. But you don't preclude the possibility—now I saw an outline or delineation—well, maybe it's tourists, maybe it's people concerned about the value of the dollar and all the currency in their nations or a few other reasons, but you don't deny the fact that some of it could be laundered?

Mr. BROWN. No, not at all. It could be legitimate trade; it could be tourism; and it could be laundered money.

Chairman ST GERMAIN. Or it could be laundered?

Mr. BROWN. Yes, Mr. Chairman.

Chairman ST GERMAIN. That being the case, now reinforces the reason for Treasury's new regulations in 1980 requiring reporting of large currency transactions from international banks.

Mr. BROWN. Absolutely. We have no problem with reporting it.

Chairman ST GERMAIN. Well, fine.

Well, Mr. Brown, I am going to tell you something.

The ABA, when they testified, and there was another group of banks—was it the Clearinghouse Banks that testified on the regulations in 1980?

Well, Deak-Perera put in a statement. The ABA put in a statement, and another group of banks put a statement on the regulations in 1980, and they weren't beating the drums. There was an initial reaction that was adverse to the new regulations. So that's why I'm glad to hear now that you understand and agree that there is good reason for asking that the international movement of money be monitored, as well.

Now Mr. Brown, I am going to have brought down to you copies of three memos that were written by Gary Cox—is that the same Cox? A different Cox from Mr. Cox that dealt with Mrs. Cushing. He was formerly a Bank of Boston employee in the international division. Mr. Cox describes conversations he had with Swiss banks in 1976 relating to international currency transactions in American dollars.

I show you these to note that Mr. Cox apparently did not ask what the purpose of these shipments was. In particular, I am intrigued by his memo of September 9, 1976, in which he discusses a transaction whereby the Swiss bank was to send \$2 million in small bills on one day, and 3 days later was to get a \$2 million shipment back from your bank of \$100 bills.

Now Mr. Brown, I wonder if Mr. Cox ever considered the relationship or potential relationship of those transactions, since they do represent what we consider to be the type of transaction that could be looked upon as a money laundering scheme. Now I would hope that this was a legitimate transaction. I am not implying that there was money laundering here. However, could you tell me if anyone at the bank, including Mr. Cox, looked into this transaction or anything similar to this to ensure that they did not involve money laundering?

Mr. BROWN. Well, Mr. Chairman, I don't know what they could have done other than to ask the Swiss bank.

Chairman ST GERMAIN. Well, did they even ask the Swiss bank where these small denomination bills came from and why?

Mr. BROWN. I would doubt that they asked them.

Chairman ST GERMAIN. Would that be a no-no to say to a Swiss bank, "You're sending us \$2 million in small denomination bills and you're asking for nice, crisp \$100 bills in return. Would you tell us, you know, what the source is, or what the purpose is?"

Is that forbidden? Is that unethical, against the rules of banking somewhere?

Mr. BROWN. No, I'm sure you could ask if you wanted to. I suspect at this point in time Mr. Cox didn't ask.

Chairman ST GERMAIN. Yes; but wouldn't you be curious?

Mr. BROWN. Well, I didn't handle the transaction.

Chairman ST GERMAIN. But, say, Mr. Brown, back then in 1976, I don't know, you were vice president or president at that point in time?

Mr. BROWN. President, yes.

Chairman ST GERMAIN. You wouldn't have had any curiosity whatsoever about the fact that they were shipping all these small bills in and looking for big bills within a 3-day period?

Mr. BROWN. Mr. Chairman, I might have been curious but this is one of the largest Swiss banks and one of the largest banks in the world. It's no different than if Citicorp wanted to ship something to one of our people. I doubt if they would ask Citicorp "Where did you get the money?"

Chairman ST GERMAIN. Mr. Brown, you're a pretty bank, too, a rather large bank yourself, 16th or 18th largest bank in the country. Just think, you had the Angiulo's purchase 300,000 dollars' worth of cash, his checks with old \$100 bills within a 5-day period—\$50,000 one day, \$250,000 the other day. You didn't catch it. Nobody in your bank caught it, except for Mrs. Cushing, who didn't see fit to mention it to anyone. Right?

You're a big bank. So you don't think there might be a Mrs. Cushing who might not read the regulations, or what have you, in the large Swiss bank as well?

Mr. BROWN. Oh, certainly, there could be.

Chairman ST GERMAIN. I mean, even a big Swiss bank can make a mistake; right?

Mr. BROWN. I would agree, yes.

Chairman ST GERMAIN. So the fact that they're big doesn't mean they're pure? To put it another way, the fact that they're big doesn't mean they can't make a mistake?

Mr. BROWN. That's correct.

Chairman ST GERMAIN. The fact that they're big doesn't mean that 14 or 15 top officers can have their initials on a circular and that none of them really get around to reading it totally.

Mr. BROWN. That's correct.

Chairman ST GERMAIN. All right, Mr. Stankey, what do you think about this? \$2 million in small bills coming over and 3 days later, they want \$100 bills in return. Wouldn't you be curious to know what the purpose was?

Mr. STANKEY. Very curious, Mr. Chairman. I personally think that I would want to contact the Swiss bank and ask them the nature of this transaction.



Mr. WYLIE. Would the chairman yield?

Chairman ST GERMAIN. Sure.

Mr. WYLIE. I'm curious to know how this money is transported. That may sound like a dumb question, but \$2 million in \$20 bills, was it in a bag that somebody takes it to Switzerland on an airplane? Or, how does it get there?

Mr. BROWN. The banks have regular money bags. They're standard bags and they're sealed by the bank. Let's assume it's a Swiss bank sending money to us. They would put it in their bag. They would take it to the armored carrier, who would probably take it to the airport. In their case, they would put it on Swiss Air. And they would declare the U.S. Customs at that point, or when it gets here. I'm not sure at which point it's declared, but they do declare it.

Mr. WYLIE. The U.S. Customs would know about it?

Mr. BROWN. Yes, the U.S. Customs knew about all these transactions.

Mr. WYLIE. If you had \$2 million in a bag, you'd have to declare it with U.S. Customs, so there would be a reporting requirement at that point?

Mr. BROWN. Yes; all the shipments we made, Mr. Congressman, were reported to Customs.

Mr. WYLIE. It's not like a transfer between money center banks where they use the computer and credit a certain amount of money to an account, and that sort of thing? You actually physically take—

Mr. BROWN. No; this is physical.

Mr. WYLIE. You physically take the dollars and—

Mr. BROWN. It's the physical shipment.

Chairman ST GERMAIN. I think you ought to ask him if he's talking about CMI forms or customs forms? Maybe you ought to ask Mr. Stankey about those forms. There's more than one type.

Mr. WYLIE. Well, yes, there are more than one type. Are we talking about CMI forms or CTR forms?

Mr. BROWN. Well, obviously, under the 1980 rule, these should have been reported. In addition to reporting to customs, currency transaction reports should have been completed.

Mr. STANKEY. Mr. Wylie, I don't think it's clear that these shipments were in fact reported on the CMIR forms, the customs form 4790. Perhaps someone can shed some light on that.

Mr. DORMER. It was not form 4790 that it was reported on. It was on a customs entry or exit form. I do not have the form number in front of me if you could wait—it is form 476, customs form 476.

Mr. WYLIE. But, on that, you would have to say: We have in this bag \$2 million in small bills, or \$20 bills?

Mr. DORMER. It has to specifically list the denomination and the amount. It requires more information than form 4789 or 4790 does.

Mr. STANKEY. Mr. Wylie, could I respond to that question? Under the regulations, if in fact, they are reporting to be filing in response to the Bank Secrecy Act regulations, there's only one form that you can use, and that's a form 4790. I'm unfamiliar with this other customs form. Of course, that's not unusual. I'm not an expert in customs, general customs matters. The difference is that the chances are that this other form, whatever it is, is not included



in the database, and would not be given the same scrutiny that forms 4789 or 4790 would be.

Mr. WYLIE. But wouldn't there be a trail of transactions if, over a long period of time, they had been transporting \$20 bills?

Mr. STANKEY. Well, I don't know what form they filed this report on. I'm unfamiliar with the reporting form. I'd very much like to see one.

Mr. WYLIE. What was the number of the form again, Mr. Dormer?

Mr. DORMER. 4-7-6.

Mr. WYLIE. Form 476. That might be something we want to check, Mr. Chairman.

Thank you.

Chairman St GERMAIN. Mr. Brown, you disclosed last week that your bank subsidiary had failed to report for 1974 a million in currency transactions with the Central Bank of Haiti.

Now I was curious, whatever became of that money? That was the Haitian Central Bank that sent that money in?

Mr. BROWN. It was the Central Bank of Haiti and, actually, it wasn't sent to us, it was sent to another Florida bank that received the cash.

Chairman St GERMAIN. They physically received it but it was sent to your affiliate——

Mr. BROWN. Oh, yes, it was sent to our credit, but they physically received it.

Chairman St GERMAIN. Yes; but the reason you didn't receive it was you have an Edge Act office in Miami. You don't have a vault. So you asked that other bank to do you a favor and put it in their vault, and I assume you paid them for doing that.

Mr. BROWN. Yes.

Chairman St GERMAIN. So you did receive it.

Mr. BROWN. Oh, yes. Yes.

Chairman St GERMAIN. Because you said you didn't receive it.

Mr. BROWN. Yes, we reported it——

Chairman St GERMAIN. You said it wasn't sent to you.

Mr. BROWN. No, no. I was just trying to be——

Chairman St GERMAIN. Tell us about the report now. Tell us, at that time, did the Haitian bank have a credit on your books?

Mr. BROWN. That's correct.

Chairman St GERMAIN. All right. Now was there currency that flowed back to Haiti in return for this \$74 million in cash that came in? What happened?

Mr. BROWN. I don't believe that we have transported any cash to Haiti. Is that correct?

We have not sent any cash shipments to Haiti.

Chairman St GERMAIN. So you still have a credit on your books for them?

Mr. BROWN. What?

Chairman St GERMAIN. Do you still have a credit on your books?

Mr. BROWN. I don't know whether it's been wire-transferred to some other account or not. But we haven't sent any cash to Haiti.

Chairman St GERMAIN. You have not sent any cash to them?

Mr. BROWN. That's correct.

Chairman St GERMAIN. They sent you the cash?

Mr. BROWN. That's correct.

Chairman ST GERMAIN. It was put in the other bank.

What happened to that cash then?

Mr. BROWN. Well, I don't know. It was in their account and I don't know whether they have withdrawn it electronically and sent it to someone else.

Chairman ST GERMAIN. Well, is that cash physically? Those bills, are they physically still in the Miami bank?

Mr. BROWN. I have no idea. I don't think any of our people would know what they did with it.

Chairman ST GERMAIN. But the Central Bank of Haiti has a credit on your books for \$74 million?

Mr. BROWN. Yes, they would have. Over a long period of time, yes. I think that's about a 4-year period, since 1980.

Chairman ST GERMAIN. That's a 4-year period. But, that cash, it certainly isn't still laying in the Miami Bank; is it?

Mr. BROWN. Oh, I'm sure it isn't.

Mr. WYLIE. What is the name of the Miami bank?

Mr. BROWN. What's the name of the Miami bank? Southeast First National Bank.

Chairman ST GERMAIN. Thank you.

Now, maybe somebody could tell me this. How would this transaction, like the one you had with Haiti, be involved in deposit of funds in a third party bank, be reflected on the books of your Edge Act affiliate? Can anybody explain that to me here?

Mr. BROWN. The money would come in and be received by the Florida bank and we would give the Central Bank of Haiti credit for—

Chairman ST GERMAIN. But how is it noted on your books at your affiliate in Miami, your Edge Act affiliate? Does it say "cash received in the amount of," let's say, "\$10 million" on a given transfer?

Mr. BROWN. I don't know what—it would just be, I assume, it would show—what?

Mr. DORMER. It would be a credit on the Central Bank of Haiti's books, and we would have received a credit on our account at Southeast Bank of Miami for the value of those funds, which would offset on the wire.

Chairman ST GERMAIN. Now, Mr. Dormer, I go into your affiliate in Haiti, and I'm looking at the books. What do I see on the books? Does it say, "Cash came in from the Central Bank of Haiti, went to the Southeast National Bank, Miami"? Or, what?

Mr. DORMER. Not—

Mr. BROWN. Mr. Chairman, our branch in Haiti was not involved in this transaction. It was only our Edge Act bank.

Chairman ST GERMAIN. Yes, I thought I said Edge Act.

Mr. BROWN. No, I thought you said our affiliate in Haiti.

Chairman ST GERMAIN. Excuse me. Your affiliate, Edge Act in Miami. I'm sorry.

Mr. BROWN. Yes.

Chairman ST GERMAIN. If I walked in there, what would I see on the books, Mr. Dormer?

Mr. DORMER. A credit to the account of Central Bank of Haiti for the amount of the specific transaction.

Chairman ST GERMAIN. OK, would it say that that money was in the form of checks, cash, what have you?

Mr. DORMER. It's a transaction code that I believe represents cash.

Chairman ST GERMAIN. If I were to look at it and understood the code, I'd know it was cash?

Mr. DORMER. Yes.

Chairman ST GERMAIN. So, I'm the bank examiner, in other words, or an examiner. I go in there and I can tell that there was cash that came in from Haiti?

Mr. DORMER. Yes, you should be able to.

Chairman ST GERMAIN. OK, and there is no question in your mind that it was handled in that manner? That's the proper manner to handle it and, obviously, you handled it that way?

Mr. DORMER. It is the way it is handled by our specific operations and I find no reason—

Chairman ST GERMAIN. Miami is your affiliate?

Mr. DORMER. It is an affiliate of the holding company.

Chairman ST GERMAIN. Right, that Edge Act affiliate.

Mr. Brown, I understand some of the unreported transactions you disclosed at your annual meeting involved multiple deposits of cash on the same day and by the same depositor.

Do you know this is a pattern that is often used by people who desire to circumvent reporting laws? However, there are times there might be justification for this? Could you tell us what you know about those particular transactions, the multiple transactions that you reported at your annual meeting?

Mr. WILEY. Mr. Chairman, those particular transactions were picked up very recently as part of our ongoing doublechecking of records in various of our branches. What they involved was a depositor, a conventional retail depositor, who had two different types of accounts, a conventional checking account or a NOW account and then perhaps one of our money market rate accounts, which we call a first rate account, and there were deposits, in effect, on the same day to two different accounts with different account numbers.

The new sort of systems that we are in the process of designing, which Mr. Brown referred to in his statement, will enable us to automatically pick up all of those multiple accounts of that type. At the moment we just don't have in place the systems to automatically pick those up in the first instance.

Mr. ROEMER. May I ask a question on that, Mr. Chairman?

Chairman ST GERMAIN. Why, of course.

Mr. ROEMER. Mr. Wiley, just so I can understand the accounting, the new system that you are designing that can ferret this multiple deposit syndrome, does it make sure that we don't circumvent the \$10,000 limit and threshold? Is that what you are—

Mr. WILEY. Absolutely. In fact, what we are planning to do—and we can do it with the right kind of computer program—is build in any threshold we want and simply add it up on a daily basis from that point, and obviously, based upon everything we have learned, we are going to set quite a low threshold.

Mr. ROEMER. Good, thanks.



Mr. BROWN. And it will be—if a customer goes in to five different branches and puts \$2,000 in, under this system it will show that he has deposited \$10,000 in cash, so that we would be able to file a transaction report.

Mr. ROEMER. Good, thanks.

Chairman ST GERMAIN. These multiple transactions made on the same day, did any of those occur at the North End branch, Mr. Wiley?

Mr. WILEY. I believe not.

Chairman ST GERMAIN. All right, now the great moment is arriving. Mr. Stankey, Mr. Dormer, and Mr. Colbert, we are going to ask you to retire to the front row. Mr. Brown and Mr. Wiley, we are going to ask you to move down to where Mr. Dormer and Mr. Colbert are.

Mr. WORTLEY. Mr. Chairman?

Chairman ST GERMAIN. Yes.

Mr. WORTLEY. Mr. Chairman?

Chairman ST GERMAIN. Oh, Mr. Wortley.

Mr. WORTLEY. Could I get in one last question?

Chairman ST GERMAIN. I am sorry.

Mr. WORTLEY. Could I get in a last question?

Chairman ST GERMAIN. Of course, of course.

Mr. WORTLEY. Thank you.

Mr. Brown, could you tell me, do the Anjiulos still have accounts in the First National Bank of Boston?

Mr. BROWN. No, they do not.

Mr. WORTLEY. They do not.

In the past few years, have Gennaro or Denato, Vittori or Frank Anjiulo had accounts in your bank?

Mr. BROWN. Well, I am not—

Mr. WORTLEY. Now, you must have gone back and looked over all the names of the family?

Mr. BROWN. Well, yes. I think most of those names did have accounts in our bank.

Mr. WORTLEY. They did?

Mr. BROWN. Yes.

Mr. WORTLEY. This is the same Gennaro Angiulo who was convicted many, many times by the State for gambling, twice for assaulting a Federal officer, charged and acquitted for murder and armed robbery—I will admit that he was acquitted, but nevertheless charged—the same Denato that has been charged with assault and battery and carrying firearms illegally, his brother Vittori, who has been jailed for a number of State offenses, including larceny, assault with a dangerous weapon—these are convictions I am referring to—Frank, who was convicted six times of gambling offenses and assaulting a police officer. All of these people had accounts in your bank.

You don't screen your customers very well, do you?

Mr. BROWN. No, we have said that neither we nor most banks, Mr. Congressman, have had a policy of know your customer, but we now are establishing one as a result of these events, and I also think most other banks around the country are.

Mr. WORTLEY. Did you close out the Angiulo accounts, or did they withdraw them voluntarily?



Mr. BROWN. They drew their accounts down at some point—I don't know when—very substantially, and when all the grand jury investigations were over and everything was complete, we watched the accounts closely. We then closed out the accounts.

Mr. WORTLEY. Do you have very many other unsavory characters who carry their accounts in your bank?

Mr. BROWN. Well, we have been looking and trying to work with the Boston police to give what information they can legally give to us to find out if we have. Very definitely, yes, sir.

Mr. WORTLEY. I most certainly wouldn't want to be known as the mob bank. That isn't very good for a reputation, but you sure catered to an awful lot of unsavory characters, characters whose convictions were a matter of public record.

Mr. BROWN. Well, they had deposits, and they carried on business in our bank, yes.

Mr. WORTLEY. Did they carry good balances in those accounts?

Mr. BROWN. I think I testified that individually, I don't know what the balances were.

Mr. WORTLEY. You indicated a little earlier that they carried average balances in the business accounts.

Mr. BROWN. \$80,000.

Mr. WORTLEY. Around \$80,000?

Mr. BROWN. That is correct, and I don't happen to know offhand what the size of the personal accounts were.

Does anyone know?

Mr. WORTLEY. Obviously, since this has been under investigation for a long, long time and you have been fined a half a million dollars, I am sure you have gone back and reviewed a number of their transactions.

How did they launder their money other than cashier's checks, or the like? What other means did they use to launder money?

Mr. BROWN. I have no idea.

Mr. WORTLEY. You haven't looked into that to see—I mean, they just put that money in your bank, and then what do they do with it—just write checks for normal business transactions, pay the rent, the mortgage, a few things like that?

Mr. BROWN. They ran the account for the most part as a normal account, and in our investigation we have gone back and taken a look at it. I just offhand can't tell you what all the checks were for.

Mr. WORTLEY. Did they have a line of credit in your bank?

Mr. BROWN. No.

Mr. WORTLEY. Individually or business? Did either real estate firms have a line of credit?

Mr. BROWN. No.

Mr. WORTLEY. Never borrowed any money from you?

Mr. BROWN. As I testified earlier, I believe one of the brothers had a \$400 first check credit account—that is a consumer account—and it was paid some years ago.

Mr. WORTLEY. Did they have overdraft checking privileges?

Mr. BROWN. No.

Mr. ROEMER. Would you yield, Mr. Wortley, at some point for a quick question?

Mr. WORTLEY. I sure will.

Mr. ROEMER. I thank you.

Mr. Brown, just to follow up on that quickly, implicit in the Bank Secrecy Act and other testimony that we have is that we should look at money differently, that it is not all the same. There is some difference as to quantity. Large sums, for example, deserve a careful look. There are some differences to type—cash as opposed to some other. So that is implicit in all of this.

Now, some would say that lawyers are professionally involved in the business of justice, and whoever comes seeking justice we deal with.

Are banks professionally the same way when it comes to money? Do you think it is fair to differentiate professionally by size or type of transaction? Are you put off by this, made ill at ease by it?

You don't seem, up until today, to have much of a commitment to it, but leaving that aside, professionally, do you think that banks ought to be in the business of differentiation by type or by size?

Mr. BROWN. I am not quite sure, Mr. Congressman, what you mean. You mean a large customer—

Mr. ROEMER. One of my—

Mr. BROWN. Should I treat a large customer differently than a small customer?

Mr. ROEMER. No; should you treat one type of transaction differently from another?

Mr. BROWN. Such as?

Mr. ROEMER. Should your bank be in the business—let me just be blunt about it.

Mr. BROWN. Yes.

Mr. ROEMER. Should you take blood money or criminal money, foul money, sour money, illegal money? And that is what this is all about now. Should you care about that?

There are some who would argue that you shouldn't care about that. You are in the business of accounting and safety and security and money, and you just take it as it comes. What do you think about that?

Mr. BROWN. Well, obviously we should care, and I think that I testified here today that we are trying to develop a program where we can properly screen our customers and we won't be taking what you call bad money, Mr. Congressman.

Mr. ROEMER. Right, and I didn't mean to draw that out, but it seems—

Mr. BROWN. No; but I didn't understand what you meant.

Mr. ROEMER. Yes; I used to be in the banking business years ago—there are some in our industry who would argue that we can't differentiate, nor should we, that we should take what comes. I disagree over time, and I just want to make sure you do.

Mr. BROWN. I have stated in my statement that I don't agree with that.

Mr. ROEMER. Very good, thank you.

Mr. BROWN. And we do not.

Mr. ROEMER. Thank you, Mr. Wortley.

Mr. WORTLEY. Just one last question. Did the Angiulo business accounts or their personal accounts ever have electronic transfers of funds to offshore banks?

Mr. BROWN. To what?

Mr. WORTLEY. Did the Angiulo business accounts or personal accounts ever request electronic transfer of funds to offshore banks?

Mr. BROWN. No; not to our knowledge.

Mr. WORTLEY. Could you go back and double-check and let us know for sure?

Mr. BROWN. Yes, Mr. Congressman, we will.

Mr. WORTLEY. Thank you very much.

[In response to the request of Congressman Wortley, the following information was submitted for the record by Mr. Brown:]

#### WIRE TRANSFERS TO OFFSHORE BANKS

Congressman Wortley asked whether the Angiulos ever requested wire transfers of funds from either their personal or business accounts at Bank of Boston to offshore banks. Since the hearing on April 3, we reviewed the pertinent account records and could find no evidence of any such transfers.

Chairman ST GERMAIN. Mr. Dormer and Mr. Colbert, if you would retire to the row behind you, Mr. Brown and Mr. Wiley move over to Mr. Colbert's and Mr. Dormer's seat.

Mr. Stankey, I am going to ask you to, when the OCC people come, grab a chair at the end of the table here because I noticed we can't ignore you. We are going to have to have you participate.

I believe we have Mr. Conover, Mr. Connors, Mr. Rollo, Ms. Linville, Mr. Dunham—is Karen Wilson here—Ms. Wilson, and Mr. Tracy.

Before you all sit down, I am going to swear you in. So you might as well stand up.

[Witnesses sworn.]

Chairman ST GERMAIN. Mr. Conover, we will put your entire statement in the record and ask you to proceed.

**STATEMENT OF HON. C.T. CONOVER, COMPTROLLER, OFFICE OF THE COMPTROLLER OF THE CURRENCY [OCC], ACCOMPANIED BY STEPHEN CONNERS, FORMER SENIOR NATIONAL BANK EXAMINER; THOMAS ROLLO, ASSISTANT NATIONAL BANK EXAMINER; JULIE LINVILLE, FORMER NATIONAL BANK EXAMINER, OFFICE OF THE CHIEF NATIONAL BANK EXAMINER; ROY DUNHAM, FORMER BOSTON DEPUTY REGIONAL ADMINISTRATOR; KAREN WILSON, FORMER CHIEF NATIONAL BANK EXAMINER; AND JAMES E. TRACY, DEPUTY DIRECTOR OF COMMERCIAL EXAMINATIONS**

Mr. CONOVER. Thank you, Mr. Chairman.

I have an extraordinarily brief oral statement that I would like to go through.

Mr. Chairman, members of the subcommittee, I am here today to discuss compliance with the reporting provisions of the Bank Secrecy Act. The conviction of the First National Bank of Boston for currency transaction reporting violations in February raised public concerns regarding the implementation of that act. These concerns have been heightened recently by the various banks and other financial institutions that are coming forward to report similar reporting omissions.

The Comptroller's Office [OCC] shares the public's concerns, and we are committed to ensuring effective discharge of our responsibilities under the Bank Secrecy Act. We have been reviewing the



facts to determine what went wrong in those cases that involve national banks and what we should do differently in the future. Obviously, the primary responsibility for complying with the law rests with the banks. However, we have concluded that there was an institutional failure on the part of OCC management relative to our responsibilities under the Bank Secrecy Act and that a program of corrective actions needs to be undertaken.

Briefly, we are taking the following steps:

One, undertake a thorough review of the OCC's actions regarding the nine Massachusetts banks.

Two, ensure effective compliance examinations in Massachusetts.

Three, improve internal communications.

Four, intensify examiner training.

Five, continue efforts to improve interagency cooperation.

And, six, strengthen management controls over implementation of Bank Secrecy Act responsibilities.

To assure the subcommittee of our commitment to these actions, we are prepared to submit a report to the subcommittee in 6 months regarding what we have accomplished. We also welcome the fact that the GAO will be undertaking a review.

Although we can and will find ways of improving our efforts, it is important to recognize that law enforcement agencies and bank regulators can only provide a part of the solution. The attitude and self-policing efforts of banks are critical to compliance with the Bank Secrecy Act. No amount of regulatory supervision works as well as a bank's internal control processes.

With improved efforts and coordination at the Federal level and greater industry awareness, enhanced compliance with the Bank Secrecy Act should be achieved.

Thank you, Mr. Chairman.

[The prepared statement with attached appendix of Mr. Conover on behalf of the Office of the Comptroller of the Currency [OCC] follows:]



STATEMENT OF  
C. T. CONOVER  
COMPTROLLER OF THE CURRENCY  
BEFORE THE  
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS SUPERVISION,  
REGULATION AND INSURANCE  
OF THE  
COMMITTEE ON BANKING, FINANCE, AND URBAN AFFAIRS  
U. S. HOUSE OF REPRESENTATIVES  
APRIL 3, 1985

Mr. Chairman, members of the Committee, I am here today to discuss compliance with the reporting provisions of the Bank Secrecy Act. The conviction of The First National Bank of Boston (FNBB) for currency transaction reporting violations in February raised public concerns regarding the implementation of that Act. These concerns have been heightened recently by a flurry of publicity about the various banks and other financial institutions that are coming forward to report similar reporting omissions. Obviously there are widespread problems in this area affecting the entire financial services industry.

The Office of the Comptroller of the Currency shares the public's concerns; we have been reviewing the facts to determine what went wrong in those cases that involved national banks, and

what we should do differently in the future. Obviously, the primary responsibility for complying with the law rests with the banks. However, we have concluded that there was an institutional failure on the part of OCC management relative to our responsibilities under the Bank Secrecy Act, and that a program of corrective actions needs to be undertaken.

Today, I will describe how we carry out our responsibilities regarding the Bank Secrecy Act in the context of our overall examination process. Then I will discuss what we are doing to improve our efforts to ensure that national banks comply with the Bank Secrecy Act.

#### THE EXAMINATION PROCESS

The statutory mandate of this Office is to assure that national banks operate both in conformance with safe and sound banking practices and in compliance with the many and varied statutes affecting bank conduct. With regard to the Bank Secrecy Act, Congress has assigned lead responsibility to the Treasury Department. Treasury, in turn, has delegated limited authority for supervising compliance with the Act to the various federal banking and other supervisory agencies. The Comptroller's Office is responsible for monitoring the Bank Secrecy Act compliance of national banks, while Treasury has

retained authority over enforcement, interpretation, and exemptions from the reporting requirements of the Act. Once a criminal investigation is initiated, we are usually asked to stop examining the bank in question for Bank Secrecy Act compliance. From that point until the investigation is completed, we have no knowledge of the bank's compliance in that area.

#### Overall Examination Procedures

In carrying out our supervisory responsibilities, our examiners conduct off-site analysis of reported financial data as well as perform periodic on-site examinations. In evaluating the ability of examiners to effectively investigate a bank's compliance in any particular area, it is important to understand the scope and practical limitations of the examination process.

The essential objectives of an examination are: 1) to provide an evaluation of a bank's financial condition; 2) to permit the OCC to appraise the quality of bank management and directors; 3) to identify those areas where corrective action is required to strengthen the financial condition and management of the bank; and 4) to identify and seek corrective action where compliance with applicable laws, rulings, and regulations is inadequate. Procedures utilized to meet these objectives include evaluation of the quality of assets and earnings,

the adequacy of capital and liquidity, adherence to laws and regulations, the adequacy of internal control and audit procedures, and the prudence of practices and operations. Literally thousands of steps comprise the OCC's examination procedures. In addition to carrying out the examination procedures, the examiner is expected to make a qualitative analysis of the bank and any trends or conditions that have the potential to weaken the future condition of the bank.

Not all of the procedures are followed in every bank examination. Resource considerations and the sophisticated and complex nature of the banking system require that an examination be tailored to the characteristics and condition of the bank being examined. It is particularly important to direct our efforts to areas that are posing the greatest risk or otherwise causing the greatest concern. We focus on management's and the board of directors' ability and commitment to ensure behavior that is both prudent and in compliance with the law. This means we pay special attention to management strategies, controls, and systems. It has been our experience that no amount of examination or supervision works as well as a bank's own internal control systems.

The system-wide allocation of our examination resources is also determined by a continuing assessment of where the greatest risks or areas of concern lie. Priorities are established based



on analysis of reported data as well as general economic trends and other indicators of potential problems. For example, problems over the last several years have included the economic declines in the agriculture and energy sectors. As a practical matter, directing examination resources toward banks that are experiencing problems relative to these sectors results in those banks that are in healthier economic environments being visited less frequently. We are able, therefore, to intensify our efforts regarding the growing number of banks experiencing difficulty. This is the only way we can determine the extent of the problem, institute corrective measures, and assure that depositors are protected.

#### Bank Secrecy Act Compliance

There are millions of cash transactions in a typical bank office each year. Examiners routinely review few, if any, of these transactions. Rather, they focus more on a bank's own internal control systems.

Our current procedures were developed in 1981 on an interagency basis. This joint effort, involving the Treasury Department, the Federal Reserve Board and the Federal Deposit Insurance Corporation, followed the 1980 amendments to the Bank Secrecy Act regulations and a 1981 Government Accounting Office study on the Act's effectiveness. The procedures employ a two-module approach.

The first module consists of a three-part evaluation of the bank's compliance with the Bank Secrecy Act. The first part is an evaluation of the bank's internal and external audit coverage of Bank Secrecy Act compliance including testing of its effectiveness. The second part is an evaluation of the internal controls that bank management has implemented and is practicing to ensure compliance with the Bank Secrecy Act. The third part is an actual examination of a bank's compliance including a first hand determination of whether the Currency Transaction Reports (CTRs) are correctly filed; whether the bank's exemption list is reasonable; whether the bank's relevant operations personnel are sufficiently trained as to the Act's requirements; and whether the cash shipments to and from the Federal Reserve System compared to the CTRs indicate a potential violation of law. As with all examination procedures, the determination of how much of this module is done during a given examination is at the discretion of the Examiner-in-Charge.

If the examiner determines, based on the first module of the examination, that deficiencies exist that may indicate a significant compliance problem, selected procedures from the second module are performed to the extent necessary to determine the exact scope of the problem. This second module involves verification procedures including on-site review of actual transactions for selected time periods. Detailed criteria are

provided for selection of tellers and types of transactions to review. Compliance is determined by an elaborate cross-checking and reconciling of transactions, customers, and report forms.

Clearly the examination process by itself cannot find all compliance violations. Just as with other areas of the examination process, we utilize external information to provide guidance on where to concentrate our resources. One way this occurs is through analyses provided to this Office by the Treasury Department. These analyses pinpoint institutions that exhibit unusual patterns of currency shipments relative to their CTRs. This approach is not unlike that utilized by the Internal Revenue Service in monitoring compliance with the tax code. Neither we nor the IRS could conceivably check every required filing or assure that everyone is obeying the law. The use of leads permit us to target compliance efforts more efficiently and effectively.

A notable example of the effectiveness of this approach is Operation Greenback in 1980. Florida was targeted as a region exhibiting potentially serious Bank Secrecy Act compliance problems. A major initiative was launched, involving the OCC and other bank supervisory and law enforcement agencies. We provided the assistance of over 40 examiners to this effort. The operation lasted four years and resulted in 255 indictments and 109 convictions.

Operation Greenback had a positive impact on Bank Secrecy Act compliance extending beyond the Florida region. The examination techniques developed and utilized during that time were the basis for the revisions in examination procedures adopted by the supervisory agencies in 1981. In addition, Operation Greenback spawned numerous Treasury task forces nationwide. These task forces, of which the OCC is often an active participant, have produced over 1300 indictments and over 460 convictions since 1980. Finally, since the beginning of 1980, the annual number of CTRs filed has grown more than five-fold. During that same period, OCC cited more than 32,000 violations of the Bank Secrecy Act, involving more than 2,800 national banks.

OCC ACTIONS REGARDING FIRST NATIONAL BANK OF BOSTON

The events related to OCC's part in the investigation of FNBB's compliance with the Bank Secrecy Act are detailed in an appendix to this statement. While I will not reiterate these events, I would like to provide an assessment of our actions in this case.

We provided examiners to assist in the investigation on two separate occasions, but we have learned that we could have been more responsive. We believe that we have adequate examination procedures regarding Bank Secrecy Act compliance, but we have



learned that we could have been more effective in implementing them. We have a highly competent examination force that receives extensive training, but we have learned that training in the Bank Secrecy Act area has been uneven. Finally, while we responded to Treasury's notification about potential compliance problems at certain Massachusetts banks, we have learned that we could have been more diligent in doing so.

As I stated earlier, a key factor in establishing examination priorities is receiving external information that identifies potential problems. However, when we were notified by Treasury in 1982 about nine Massachusetts banks, we did not devote sufficient attention and follow-up. We could have done a more vigorous compliance review during the 1982 examination of FNBB. It has recently become clear that the examiners in FNBB were not familiar with the enhanced examination procedures put in place in 1981 and the specific reporting requirements as revised in 1980. Although we have not completed our review of the situation at the other eight banks, there are indications that some of these shortcomings may have also existed in examinations at those banks.

We view this as an institutional, rather than an individual, failure. While we have always been committed to our responsibilities for monitoring Bank Secrecy Act compliance,

it would appear that the balance of agency priorities, due to the problems facing the banking industry in recent years, has shifted increasingly toward the protection of depositors and the safety and soundness of the industry. We do recognize that a firm commitment to enforcing compliance with the Bank Secrecy Act must be reconfirmed at the highest levels of the OCC.

#### IMPROVEMENTS FOR THE FUTURE

This Office is committed to take action to ensure more effective discharge of our responsibilities under the Bank Secrecy Act. Specifically, we are taking the following steps.

1. Undertake a Thorough Review of OCC's Actions  
Regarding the Nine Massachusetts Banks

An internal study of our response to Treasury's September 1982 memorandum regarding Bank Secrecy Act Compliance in Massachusetts is now underway. This will be an in-depth review and assessment of our performance, in order to more definitively identify the institutional shortcomings involved and any additional steps we can take to ensure better performance in the future. In addition, we welcome the fact that the GAO will be undertaking a similar review.

## 2. Ensure Effective Compliance Examinations in Massachusetts

We are reviewing the compliance procedures performed in the Massachusetts banks targeted by the Treasury Department. Teams of examiners from other areas of the country (including the Southeast District where examiners were involved in "Operation Greenback") have been assembled and are currently reviewing the procedures utilized and the examination results. Except where otherwise requested by Treasury, the examiners will conduct on-site visits to review any deficiencies and properly complete the examination process, thereby ensuring thorough reporting of any deficiencies to the Treasury Department.

## 3. Improve Internal Communications

We are stepping up our efforts to effectively communicate and implement OCC policies and procedures in the Bank Secrecy Act area. This is being done through continual updating of the Comptroller's Handbook for National Bank Examiners, through several internal memoranda directed to both field examiners and supervisory personnel at all District and Washington office levels, and through the issuance of Examining and Banking Circulars that specifically direct compliance actions to be taken. Drafts of upcoming Examining

and Banking Circulars have recently been forwarded to Treasury to provide them an opportunity for review and comment. Finally, we are establishing new quality control systems to ensure that appropriate examination procedures are being properly used.

#### 4. Intensify Examiner Training

Training efforts are being stepped up in the Bank Secrecy Act area. We are striving to ensure that all examiners are fully knowledgeable of the Act and its implementing regulations as well as being fully proficient in performing examination procedures in this area.

Going forward, all newly hired examiners will be required to demonstrate proficiency in this area before they will be eligible for promotion or assigned to examine for Bank Secrecy Act compliance without the supervision of a fully trained examiner. This training will utilize both formal classroom and on-the-job instruction by qualified people in this field.

Regarding training for existing examiners, each District is incorporating training on the Bank Secrecy Act into its regularly scheduled meetings with examiners and District-wide staff training conferences. Also, attendance



at the white collar crime school will be required for all senior level national bank examiners. In this school, an expert from the U.S. Customs Department conducts a special session on the Bank Secrecy Act.

5. Continue Efforts to Improve Interagency Cooperation

The new examination procedures adopted in 1981, along with the evolving systems utilized by Treasury to spot anomalies, have the potential to greatly enhance the ability of the federal government to monitor compliance and detect violations of the Bank Secrecy Act. However, steps need to be taken to improve the coordination between this Office and the Treasury Department regarding the analyses of institutions exhibiting anomalous currency movements. Both Treasury and this Office can make this coordination more effective and we stand ready to work with Treasury toward this end.

As another step to coordination and cooperation, this Agency has played a major part in a Task Force created by the Attorney General and endorsed by all of the bank regulatory agencies. Many of the proposals of the Task Force will ensure that substantial coordination of efforts

will be achieved. Matters of particular importance that have been agreed upon include:

- o Modification and streamlining of the handling of criminal referrals;
- o Improvement in the exchange of information between the regulatory agencies and the law enforcement community, through both proposed legislation and modification of internal procedures;
- o Joint training courses to ensure interaction between investigators and examiners; and
- o Establishment, both in the bank regulatory agencies and the law enforcement communities, of points of contact for facilitating resource requests.

The OCC is continuing to communicate to all law enforcement authorities its commitment to assisting them in their investigations involving national banks or their officials. Similarly, the OCC, as a member of the Federal Financial Institutions Examination Council will be working closely with the Treasury Department and the other members of the Council to determine if our methods of combating money laundering can be improved.

6. Strengthen Management Controls Over Implementation of  
Bank Secrecy Act Responsibilities

The OCC is fully committed to its compliance responsibilities, including the Bank Secrecy Act. We are taking steps to ensure that our commitment to carry out our responsibility regarding the Act is communicated throughout the agency. In addition to the increased training, communications, and cooperation described above, we are centralizing responsibility for all information flow and supervision in this area. Also, in each Field Office and District Office, Bank Secrecy Act compliance experts are being identified and will head up compliance examination efforts.

In addition to these immediate efforts, we expect that several recommendations for action will result from our internal review. At a minimum, we would expect to identify areas for improvement in our quality control and management information systems.

While this Office can look inward and find ways of improving its efforts, it is important to recognize that law enforcement agencies and bank regulators can only provide a small part of the solution. The attitude and self-policing efforts of banks are critical to compliance with the Bank Secrecy Act. No amount

of regulatory supervision works as well as a bank's internal control processes.

To that end, OCC has continually informed national banks of their responsibilities under the Act through Banking Issuances, through the examination process, and by regularly participating in conferences and other public forums where Bank Secrecy Act compliance is being discussed. We are now complementing those efforts with roundtable discussions with the American Bankers Association regarding their endeavor to help member banks assure that they have appropriate compliance programs in place. Additionally, we have been participating with the IRS in discussions with groups of bankers in certain states regarding compliance responsibilities.

#### CONCLUSION

Recent events have caused this Office to recognize the need for a more effective commitment to monitoring Bank Secrecy Act compliance. We have introduced a program of improvements that we are undertaking, and are prepared to submit to the Committee, in six months, a report on our progress. We also believe that the attention this area is now receiving has and will continue to have a salutary effect on the industry's compliance efforts. With improved efforts and coordination at the federal level and greater industry awareness, enhanced compliance with the Bank Secrecy Act should be achieved.



APPENDIX TO THE STATEMENT OF  
C. T. CONOVER  
COMPTROLLER OF THE CURRENCY  
Before the  
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS  
SUPERVISION, REGULATION AND INSURANCE  
Of the  
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS  
U.S. HOUSE OF REPRESENTATIVES  
April 3, 1985

Chronology of Events

On February 26, 1985, the Office of the Comptroller of the Currency (OCC) provided a letter to several Congressional Committees explaining its preliminary understanding of its actions related to Bank Secrecy Act compliance in the First National Bank of Boston (FNBB). On March 1, a second letter was provided those Committees elucidating one particular point related to the 1982 examination of FNBB.

Subsequent to those letters, OCC has continued its efforts to determine with more specificity what actions were taken by all persons involved. This Appendix recites the information that has resulted from those efforts. As more completely developed, our understanding remains generally consistent with our earlier letters. In some particulars, however, modification of that information is necessary.

1. Much of OCC's recent experience with Bank Secrecy Act compliance began with Operation Greenback, a Treasury Department initiative that was formally commenced in 1980. From OCC's perspective, Operation Greenback resulted in the issuance of

numerous enforcement actions designed to ensure compliance with the Bank Secrecy Act. In addition, Operation Greenback resulted in the development and implementation of improved regulatory systems to identify areas of possible non-compliance by financial institutions. These developments primarily included the Treasury-approved and FFIEC-adopted procedures issued in November 1981 by the OCC and the improvement of techniques through which the Treasury Department aids OCC in attempting to identify noncomplying institutions.

2. In October 1981 OCC conducted a specialized examination of the First National Bank of Boston. That examination did not use the revised 1981 Bank Secrecy Act procedures because they were not issued until after the relevant portions of the examination had been completed. No violations were cited.

3. During the summer of 1982 the OCC was informed that the Treasury Department was targeting Massachusetts banks for compliance with 31 CFR Part 103, the regulations implementing the Bank Secrecy Act.

4. In April 1982, Treasury Deputy Assistant Secretary (Enforcement) Robert E. Powis requested that all Massachusetts banks forward their exemption lists to him.

5. On June 3, 1982, Mr. Hubert Cox, Manager, Banking Offices Administration, FNBB, forwarded the bank's exemption list to Treasury.

6. On June 8, 1982, Mr. Robert J. Stankey, Senior Adviser, Office of Enforcement and Operations, Department of the Treasury, returned the list to FNBB, stating that he had marked certain of the listed customers who might not belong on it without Treasury approval. Mr. Stankey requested further information from the bank to support inclusion of these customers.

7. During that summer, as part of its Massachusetts enterprise, Treasury requested assistance from the OCC in tabulating currency receipts at the Federal Reserve Bank of Boston relating to the flow of currency in and out of that institution.

8. OCC's Boston Regional Office assigned that task to two Assistant National Bank Examiners.

9. In late June, 1982, these examiners assisted an Internal Revenue Service employee who had been detailed to the Treasury Department in the tabulation of the currency receipts at the Reserve Bank covering the period January through April 1982. In July, the OCC received from the Treasury Department a letter commending the examiners on their diligent efforts which materially contributed to the success of the project.

10. On September 7, 1982, OCC commenced another regularly scheduled examination of FNBB. One of the examiners who had previously assisted in the tabulation of currency receipts was assigned to conduct the cash program of the examination.

11. On September 21, Deputy Assistant Secretary Powis sent a memorandum to OCC's Chief National Bank Examiner conveying the results of the earlier review of Massachusetts banks' currency shipments to and from the Federal Reserve Bank of Boston, their exemption lists, and Treasury's records of their currency transaction report filings. The memorandum indicated:

a. "[C]ompliance with the reporting requirements of the Bank Secrecy Act by banks in Massachusetts [was] very low."

b. "[N]otable lack of understanding of the exemption provisions in the [Bank Secrecy Act] regulation." The memo also stated that "each exemption list received from the banks required additional contact to perfect the information reported or to require removal from the lists of non-qualifying bank customers", and

c. The number and dollar amount of Currency Transaction Reports filed by banks in Massachusetts during the review period was "not consistent with the large volume of currency" activity between the Federal Reserve Bank and its members.

12. Attached to Mr. Powis' memorandum was a list of nine national banks that "conducted substantial currency transactions with the Federal Reserve Bank of Boston during the period covered by [Treasury's] review (January to June, 1982). The schedule also



provides data on the number and dollar volume of Currency Transaction Reports filed by each bank during the same period. . . . All of the data indicate that a special compliance enforcement effort will be required, especially by the Federal agencies that supervise commercial banks, to raise the compliance level."

13. The September 21 memorandum also noted that an examination of FNBB was underway and said: "Our review indicates that the First National Bank of Boston, which appears to purchase the largest amounts of currency from the Federal Reserve Bank of Boston . . . has a very low level of compliance with the Bank Secrecy Act."

14. The memo went on: "The officer in charge of currency operations at that bank, in contacts with my office regarding exemption lists, has informed us that he is not completely familiar with the provisions of the Bank Secrecy Act regulations."

15. Finally, the memo requested "a special feedback report on the 31 CFR Part 103 compliance examination of the First National Bank of Boston" and noted: "We are especially interested in the trans-shipments of currency by the bank to correspondent banks and internationally. The information concerning correspondent activity is needed to assess the compliance of the correspondent banks that do not deal with the Federal Reserve Bank."

16. The September 21 memorandum was sent to the Examiner in Charge while the examination at FNBB was still in progress. At the time the memo was received, the Assistant National Bank Examiner assigned to the cash program had already completed those procedures of the examination, including the 31 CFR Part 103 procedures. Copies of the memo were also placed in the files of the other eight national banks pending their next regularly scheduled examination.

17. As a result of Treasury's memorandum, the Examiner in Charge brought the Assistant who had done the cash program back to the bank to follow up on the concerns that Mr. Powis had articulated.

18. The Assistant reviewed currency activities at FNBB, focusing on the reasons why few currency transaction reports had been filed given the substantial amount of currency the bank was receiving from the Federal Reserve and sent to its domestic and foreign correspondent banks, its own branches and other customers.

19. The Assistant reconciled the January through April trans-shipments of currency from the Federal Reserve, through FNBB, and on to these customers, with the number of Currency Transaction Reports filed.

20. As a result of this reconciliation, the Assistant reported in an October 8, 1982 memorandum to his supervisors that "[t]he First of Boston is a wholesale operation, selling large amounts of currency to various banks through New England. These amounts substantially account for the discrepancy noted."

21. Based on this determination, the Assistant concluded that the bank was in violation of 31 CFR 103.22 because it had failed to include the names of the domestic banks with which it had engaged in these currency transactions on its exemption list.

22. The October 8 memorandum also reported that the Assistant had been advised by FNBB Vice President and Officer in Charge of Coin and Currency Operations Dan Dormer that Mr. Dormer was "unaware of the regulations concerning international transactions, and as such had not reported them. He stated that all International Currency shipments could be traced over the past four years. This would take approximately three weeks to complete. He has been in contact with a Mr. Stankey Enforcement and Compliance U.S. Treasury Department on this matter." No further actions were taken by the examiners with respect to the international currency shipments.

23. Subsequent memorandum and recollections of OCC staff causes OCC to believe that it provided this memorandum and the supporting work papers to the Treasury Department. The OCC has formally requested the Treasury Department to search its offices and to

request searches of IRS and Customs in an effort to locate the original memorandum. OCC has provided various congressional committees with copies of the memorandum.

24. On December 8, 1982, Deputy Assistant Secretary Powis sent another memorandum to OCC, indicating that he would like to obtain information about the other eight national banks covered in his September 21 memorandum.

25. On January 4, 1983, OCC's Boston Regional Administrator placed a memorandum in his files reporting that he and the Examiner in Charge of the FNBB examination had met that day with a representative of the U.S. Customs Service to provide the latter with "an update of [OCC's] examination findings in the recently completed First National Bank of Boston." The Customs official informed the Regional Administrator that a task force was being assembled under the direction of the local U.S. Attorney to focus on money laundering through the banking system. The Regional Administrator and the Examiner in Charge provided a briefing on the FNBB exam findings and offered to participate in any organizational meetings for purposes of assisting the task force in developing a strategy. The Regional Administrator also informed the U.S. Customs Service representative that he would have to consult with the Washington Office to determine what role they could play in assisting the task force and that he could not provide a copy of the October 8 memorandum from Assistant Rollo until he obtained permission from the Washington office.



26. While a copy of that file memorandum was sent to the Washington office, any request for permission to release the document would have been oral. The Regional Administrator recalls having discussed this matter with the then-Director of the Enforcement and Compliance Division. While current personnel do not recall receiving the call, if one was made the standard practice would have been to request a memorandum of the facts so that authorization could be granted and probably a grand jury subpoena requested.

27. On or about March 7, 1983, a National Bank Examiner in the OCC's Washington Commercial Examination Division who had been assigned the responsibility of preparing a response to Treasury's December 8 request discussed the matter with a Treasury official who identified six of the nine banks as of particular concern, and then contacted the Boston Deputy Regional Administrator to ascertain the status of 31 CFR Part 103 compliance examinations at these banks.

28. In that conversation, information was provided about the scope and timing of the examinations for the six banks. The Washington examiner understood that 31 CFR Part 103 "verification procedures" had been or would be used in performing the examinations of each of the six banks. Such "verification procedures", when used as words of art, refer to a particular, intensive set of auditing procedures set forth in the November 1981 revisions to the examination procedures.

29. As a result of this conversation, a letter was forwarded by the Chief National Bank Examiner to Deputy Assistant Secretary Powis on April 5, 1983, summarizing the status of the OCC's examinations of these six banks, and assuring him that verification procedures had been or would be used in the examinations and that expanded procedures had been used in the others. In addition, the letter stated that the OCC would forward information about violations for any of the Massachusetts banks examined through the regular 31 CFR Part 103 report, which OCC provides to the Treasury Department on a quarterly basis. While the fact that these assurances were included in the April 5 letter was recited in OCC's February 26, 1985, letter to several Congressional Committees, our subsequent internal inquiry has determined that such procedures were not used at any of those banks. The procedures actually used in each of the six banks were selected by the examining personnel on site, based on all of the circumstances involved and with varying degrees of thoroughness. Verification procedures were not used because the examiners assigned to examine these banks never received such instructions from the Boston OCC office.

30. On April 27, 1983, the OCC was officially advised that the IRS was undertaking an investigation of possible criminal violations of 31 CFR Part 103 at FNBB and was instructed to refrain from examining FNBB for compliance with 31 CFR Part 103 to preclude any interference with that investigation. On May 5, 1983, OCC's Washington office acknowledged receipt of that notification and alerted the Boston Regional Administrator.

31. As of this date, any report on the results of OCC's examinations in the five banks other than FNBB has been provided to the Treasury Department only through the regular 31 CFR Part 103 quarterly reports.
32. On May 26, 1983, OCC's Washington office was contacted by Treasury with a request for OCC assistance in conducting a review of certain currency transactions from the Republic of Panama through the Federal Reserve Bank of New York. A large quantity of this currency was said to have reached an Edge Act subsidiary of FNBB's holding company.
33. While OCC initially undertook to provide assistance, it soon became apparent that Treasury wanted OCC personnel to conduct an on-site examination of the Edge Act corporation's currency activities. OCC made plain its willingness to provide off-site assistance to Treasury, but explained that the Federal Reserve Board had primary regulatory jurisdiction over Edge Act corporations and recommended that Treasury seek on-site assistance from that agency. Treasury did not request further assistance from OCC on that matter.
34. In a memorandum dated October 23, 1984, Treasury asked OCC to provide a bank examiner to assist the U.S. Attorney on a fulltime basis as an agent of the grand jury conducting the investigation of FNBB. OCC approved this request in December 1984, and two examiners, one of whom had performed the 1982 cash program, were made available.

35. The two examiners briefly worked with the grand jury, reviewing FNBB records of international currency shipments and providing information about international banking practices.

36. During OCC's recent review of its handling of the FNBB matter, the staff has had several discussions with the Assistant United States Attorney in charge of the criminal investigation. He informed us that he had been dissatisfied with the level of cooperation he had received from the two examiners. Pending further inquiry into the facts and circumstances surrounding the Assistant United States Attorney's concerns, we did not bring his concerns to the attention of the Committee staffs.

37. Press reports, during the week of March 25, 1985, of additional unreported currency transactions involving foreign financial institutions and First Boston appear to involve the holding company's Edge Act corporation rather than FNBB.



Chairman ST GERMAIN. Thank you, Mr. Conover.

I understand Mr. Connors and Mr. Rollo have some charts that they would like to explain to us, and they have asked for a few moments.

Mr. CONNORS. Mr. Chairman—

Chairman ST GERMAIN. You are Mr. Connors?

Mr. CONNORS. Yes, I am Mr. Connors.

I was the examiner in charge at the 1982 examination. These charts were prepared to help us explain to the subcommittee exactly what we did in the bank and why we did it.

As you can see—well, first, let me go back a little bit here. We were notified by Treasury Department in a memo that there was an unusual amount of cash transactions relative to the filing of CTR's at the First National Bank of Boston. When I received the memorandum, I asked Mr. Rollo to conduct a separate investigation to ascertain the difference between—or the variance between the CTR's and the amount of cash shipped to the bank.

What we basically found was that the First National Bank of Boston is a large cash supplier, or the major cash supplier, for New England banks.

Tom went through the transactions based on records provided to him by Mr. Dormer, and, as you can see from the chart, if you look at the transactions, the amount of money that was sent to the correspondent banks and affiliated banks—in this case affiliated banks means Bay banks—and also their branches, you come up with a total of approximately \$800 million over that 4-month period.

What we also found was that certain amounts were to customers, which we believed CTR's were filed for, and then we came to the international transactions—

Chairman ST GERMAIN. Excuse me.

Mr. CONNORS. Yes.

Chairman ST GERMAIN. That word bothers me.

Mr. CONNORS. What is that?

Chairman ST GERMAIN. You are sounding like a lawyer. Are you an attorney?

Mr. CONNORS. No, I am not.

Chairman ST GERMAIN. Well, you are sounding like a lawyer. You say "which we believe were filed." Either they were filed or they weren't filed. If you don't know, what you should say is we don't know whether or not they were filed.

Mr. CONNORS. We had previously conducted an examination of that area, and our examination results showed that the bank was filing the CTR's for domestic transactions. So therefore, we did not reconcile each CTR. We simply don't have the manpower to do that, but we found the bank to have in place a system that would report effectively cash transactions.

Chairman ST GERMAIN. Domestic cash transactions?

Mr. CONNORS. Yes, sir.

Chairman ST GERMAIN. In excess of \$10,000?

Mr. CONNORS. Yes, sir.

Chairman ST GERMAIN. For those businesses that were not on the exempt list?

Mr. CONNERS. Yes, sir. What we also discovered during this process was the fact——

Chairman ST GERMAIN. Excuse me—the international transactions—were any CTR's filed there?

Mr. CONNERS. Well, we discovered during this process that the CTR's were not filed for the domestic transactions—for the international transactions.

Chairman ST GERMAIN. When did you discover that?

Mr. CONNERS. That would have been October——

Mr. ROLLO. October 8, I believe.

Mr. CONNERS. That's when we wrote the memo.

Chairman ST GERMAIN. October 8 of?

Mr. CONNERS. 1982.

Chairman ST GERMAIN. Whom did you inform of the fact that those CTR's for international transactions were not filed?

Mr. CONNERS. Who did we inform? First of all, we were responding to a memo from Treasury Department, as I had mentioned. In response to that memo, we discovered that they were not reporting the cash transactions, not filing the CTR's on the foreign transactions. We then put that in a memo, that fact in a memo, which is dated—I believe you have a copy up there, which is dated October 8. Is it exhibit 20? We put that fact in a memo. Tom wrote the memo. I collaborated with Mr. Rollo on the memo, and we forwarded that memo to the Boston office and the Washington office giving what I believe was a proper response to the request for information from the Treasury Department.

As you can see, if you read the third paragraph down, we specifically state, the sentence or two there, that such had not—if you want, I'll read that last paragraph. OK.

"Discussion with Mr. Dan Dormer, officer in charge of coin and currency, First Boston, determined he was unaware of the regulations concerning international transactions, and as such had not reported them."

Chairman ST GERMAIN. Excuse me. Are you reading from the memorandum dated October 8, 1982?

Mr. CONNERS. Yes, I am, sir.

Chairman ST GERMAIN. OK. In discussion with Mr. Dormer, officer in charge.

Mr. CONNERS. Yes.

Chairman ST GERMAIN. You determined he was unaware of the regs on international transactions, meaning the requirement for reporting?

Mr. CONNERS. Yes.

Chairman ST GERMAIN. And as such, he had not reported them?

Mr. CONNERS. Yes.

Chairman ST GERMAIN. He stated that all international currency shipments could be traced over the past years, and that it would take approximately 3 weeks to complete?

Mr. CONNERS. Yes.

Chairman ST GERMAIN. Did he tell you he was going to do that?

Mr. CONNERS. I did not correspond directly with Mr. Dormer.

Chairman ST GERMAIN. Well, who had this discussion with Mr. Dormer?

Mr. CONNERS. That was Mr. Rollo——

Mr. ROLLO. I did, Mr. Chairman.

Mr. CONNERS [continuing]. Had the discussion.

Chairman ST GERMAIN. Oh, OK. Then let me ask you.

Mr. ROLLO. OK.

Chairman ST GERMAIN. You discussed this with Mr. Dormer?

Mr. ROLLO. Yes.

Chairman ST GERMAIN. The fact that he had not—that the BOB had no CTR's on their international cash transactions; right?

Mr. ROLLO. That's correct.

Chairman ST GERMAIN. He told you what? What did he then tell you?

Mr. ROLLO. Well, as far as I can remember from my memo here, Mr. Chairman, that he could be able to trace those transactions over the previous 4 years, and that would take approximately 3 weeks to complete, and that he had been in touch with the Treasury Department on that issue.

Chairman ST GERMAIN. Well, now, let me ask you something. Let's see if you've got a good memory of this. You've been sitting out there listening to this all day. Did you feel that Mr. Dormer at that point realized that he had not been doing something which he should have been doing? That he had not been filing CTR's for international cash transactions?

Mr. ROLLO. Based upon looking at my memo here, Mr. Chairman, yes.

Chairman ST GERMAIN. Well, your memo and your memory.

Mr. ROLLO. Yes.

Chairman ST GERMAIN. He told you, however, that he would file those with whom, within 3 weeks? With Treasury?

Mr. ROLLO. He said that he could trace those transactions, I believe over the past 4 years. It would take 3 weeks.

Chairman ST GERMAIN. Within a 3-week period?

Mr. ROLLO. Right.

Chairman ST GERMAIN. Then what?

Mr. ROLLO. That he had been in contact with the Treasury Department on that issue.

Chairman ST GERMAIN. Well, now, that's interesting.

Mr. Dormer, yes, we're going to have to ask you to step up to the table a moment. Maybe Mr. Wiley would trade seats with you for a moment, so you can have a microphone, and we can hear you loud and clear.

You heard what Mr. Connors and Mr. Rollo just said?

Mr. DORMER. Yes, sir.

Chairman ST GERMAIN. I had read this in this memo also. What is your reaction to this? Are they accurate in what they're saying?

Mr. DORMER. I do not recall any conversation with Mr. Rollo. I have no recollection—

Chairman ST GERMAIN. You never talked to him?

Mr. DORMER. I have no recall of a conversation with Mr. Rollo.

Chairman ST GERMAIN. Let alone the content of the conversation, you don't remember talking to him?

Mr. DORMER. I do not remember talking to him.

Chairman ST GERMAIN. Mr. Rollo, was this the gentleman you spoke to? Did you speak with him in person or on the telephone?

Mr. ROLLO. On the telephone, Mr. Chairman.



Chairman ST GERMAIN. Well, you've heard his voice here. He has a very distinctive manner of speaking. Very seriously, I'm not being facetious here. He does. Is this the man you spoke to that day?

Mr. ROLLO. I can't recall the vocal recognition.

Chairman ST GERMAIN. Did you call him or did he call you?

Mr. ROLLO. I called him, I believe, Mr. Chairman.

Chairman ST GERMAIN. You called him.

Mr. ROLLO. Yes.

Chairman ST GERMAIN. You called the Bank of Boston.

Mr. Brown, do you have more than one "Mr. Dormer" working at the Bank of Boston?

Mr. BROWN. No, we do not.

Chairman ST GERMAIN. Do you have a—no, you don't.

Mr. Dormer, this is very peculiar. You never spoke to the man.

Mr. DORMER. I do not recall speaking with—

Chairman ST GERMAIN. Does anyone in coin and currency take calls and say "I'm Mr. Dormer" and talk to bank examiners?

Mr. DORMER. No—to my knowledge, that has never happened.

Chairman ST GERMAIN. Mr. Rollo, you say that the voice at the other end of the phone told you that he could reconstruct the transactions over the past 4 years from the records that he had?

Mr. ROLLO. That's correct, Mr. Chairman.

Chairman ST GERMAIN. Could you have done that, Mr. Dormer?

Mr. DORMER. Within 3 weeks; probably less.

Chairman ST GERMAIN. So that doesn't seem to be too far out of line.

Mr. Conners, you were Mr. Rollo's superior?

Mr. CONNERS. Yes, I was in charge of the examiners.

Chairman ST GERMAIN. Right. Did either of you contact Mr. Dormer, subsequently, to find out if he had, indeed, communicated this information to Mr. Stankey, at Treasury?

Mr. CONNERS. I did not, sir.

Chairman ST GERMAIN. Did you, Mr. Rollo?

Mr. ROLLO. No, Mr. Chairman. I had left the bank at that time.

Chairman ST GERMAIN. You had left the Bank of Boston.

Mr. ROLLO. Yes.

Chairman ST GERMAIN. But you were an examiner? Had you left the OCC, as well?

Mr. ROLLO. No. No.

Chairman ST GERMAIN. Well, you mean, when you left the bank you forget what happened there? You don't follow up?

Mr. ROLLO. Sir—

Chairman ST GERMAIN. Where?

Mr. CONNERS. Could I make a statement here?

Chairman ST GERMAIN. Yes.

Mr. CONNERS. The followup, I assume, was being handled by someone else at this point.

Chairman ST GERMAIN. Who would someone else be?

Mr. CONNERS. Someone in the Treasury Department. Mr. Powis, who had originally requested us to undertake this review. Now I returned this memo through our regional office. I assumed at this point that Mr. Powis would accept this as a response, if he had any further questions on this, I assumed he'd get back to me.



Chairman ST GERMAIN. Your memo went to Karen Wilson, Chief, National Bank Examiner and Ralph Gridley, Regional Bank—Administrator.

Mr. CONNERS. Yes.

Chairman ST GERMAIN. Ms. Wilson, did you read this memo, when it was sent to you?

Ms. WILSON. Mr. Chairman, I do not recall reading the memo, and as normal practice, had I received the memo, I generally would have assigned the routing to it, which is not evident.

Chairman ST GERMAIN. Mr. Gridley has a heart condition. Do you think he read the memo? The Regional Administrator, National Bank Region 1?

Ms. WILSON. I believe that someone in the Office of the Chief National Bank Examiner would have read the memo, that being either Jim Tracy—

Chairman ST GERMAIN. You know, you're sounding like the Bank of Boston or the Bank of Boston sounds like you here. You get memos; you don't read 'em. Why wouldn't you read the memo, if it was addressed to you?

Ms. WILSON. Well, if I may back up to just give you an idea of the areas that the Office of the Chief National Bank Examiner handled at that particular point in time, it may put it in perspective. It was one of several areas that my office was responsible for. During 1982 through May 1983, when I was Chief National Bank Examiner, the office was responsible for the development of policies and examination procedures relating to all banking activities. Specific areas of responsibility included commercial, consumer, EDP and trust activities. Additionally, a review of the investment securities activities undertaken by banks and the development of accounting policy for national banks.

During this period of time we had close to 200 projects that were under way, which included such things as drafting regulations to implement the Garn-St Germain Act, doing a total revision of the call reports on national banks, developing two new combined examination procedures to be implemented along with the training that went along with it.

Chairman ST GERMAIN. Combined examination procedures. Does that mean that, you combine them to save time; is that it?

Ms. WILSON. There were two different sets of procedures that we were dealing with. The goal of one was to take all the specialty areas which had previously been examined separately and to incorporate it into our commercial examination process. The goal of the second was to provide a visit to the bank that would reduce the amount of time that we would be spending in that institution, targeted at banks that were well-rated and sound, in our opinion.

Chairman ST GERMAIN. Ms. Wilson, let me tell you something.

You impress me with the fantastic workload you had—and I'm serious it is mind-boggling. Did Mr. Conover know he was working you this hard? [Laughter.]

Now we'll get serious again, although I'm serious about that. I can appreciate it.

Ms. LINVILLE. Mr. Chairman.

Chairman ST GERMAIN. Yes.

Ms. LINVILLE. I would like to clear something up here. I worked for Karen Wilson in the Chief National Bank Examiner's Office, and I was the one that received the memo and did read it and did pass it on to Treasury Department.

Chairman ST GERMAIN. Mr. Stankey, did you receive this memo from OCC?

Mr. STANKEY. Not that I can recall.

Chairman ST GERMAIN. Who did you pass it on to at Treasury?

Ms. LINVILLE. I either passed it on to Mr. Stankey or the gentleman that assisted him, Billy Landreth. I worked with both of them on a regular basis.

Chairman ST GERMAIN. Now how about Mr. Dunham, you were Mr. Gridley's assistant at the time; right?

Mr. DUNHAM. Yes, Mr. Chairman.

Chairman ST GERMAIN. Did you see this memo?

Mr. DUNHAM. I believe I saw the memo. I was not present when I believe Mr. Gridley and Mr. Connors met with Customs to discuss the results of the findings here, but I believe I subsequently read Mr. Gridley's memorandum of that meeting and saw the memo. I believe that's what happened.

Chairman ST GERMAIN. So the memo goes from Messrs. Rollo and Connor, then it goes to Ms. Karen Wilson and Mr. Gridley. Ms. Wilson's assistant, Ms. Linville reads it. Now, when you say you sent it to Treasury, does that mean you sent a copy to Treasury, or did you send the memo in its entirety and not keep it in your files?

Ms. LINVILLE. I don't know whether I sent a copy or original, but I sent them the entire memo.

Chairman ST GERMAIN. Well, that's a one-page memo.

Ms. LINVILLE. No; there are some attachments to the memo.

Chairman ST GERMAIN. The significant part being the one which we're looking at right now.

Would that memo still have been in your files, as well, after having forwarded it to Treasury?

Ms. LINVILLE. I believe it was in the files of the Chief National Bank Examiner's Office.

Chairman ST GERMAIN. That's what I mean.

Ms. LINVILLE. I don't know whether it's in my personal file.

Chairman ST GERMAIN. No, no; by "your files," I mean the OCC files.

Ms. LINVILLE. Right.

Chairman ST GERMAIN. You see my problem, Mr. Conover? Bank of Boston says we didn't know that we had to file these reports. Mr. Rollo had a conversation with somebody he thought was Mr. Dormer, and that individual said "I'll give you the information within 3 weeks." But Mr. Rollo also explained that they should be filing these reports, the CTR reports. I bet Mr. Brown wishes that Mr. Dormer could have remembered that conversation, because it might have saved the bank \$500,000.

Mr. Brown, for the record, is nodding in the affirmative.

Mr. CONOVER. Mr. Chairman, the first part of the paragraph says that discussion with Mr. Dormer determined that he was unaware of the regulations concerning international transactions and, as such, had not reported them.

Chairman ST GERMAIN. That's correct.

Mr. CONOVER. All right. Now—

Chairman ST GERMAIN. That, by the way, is a violation; isn't it?

Mr. CONOVER. It is a violation.

Chairman ST GERMAIN. Right.

Mr. CONOVER. And the violation was not cited in the examination report.

Chairman ST GERMAIN. Why?

Mr. CONOVER. There was a domestic violation, that is, a violation for failure to include domestic banks on an exemption list cited in the examination report. No international violation was cited in the report because the examiners believed that the issue was being handled directly between the bank and Mr. Stankey. That is not an excuse; it is an explanation.

Mr. CONNERS. Mr. Chairman, I was responsible for everything that went in that report, and I erred in not citing part 23. I cited part 22; I did not cite part 23.

I accept full responsibility for that. I should have cited part 23.

Chairman ST GERMAIN. OK. This was October 8, 1982.

When did the next exam occur by OCC of the Bank of Boston?

Mr. CONNERS. The next exam occurred—

Chairman ST GERMAIN. Subsequent to this conversation?

Mr. CONNERS [continuing]. Approximately 1 year later.

Chairman ST GERMAIN. OK.

Mr. CONNERS. Now we were told in April 1983 not to followup in this area. We were informed by a memo from the IRS, that we were not to followup, not to do anything on CEA Part 31, 103. I complied with that request not to do anything.

Mr. CONOVER. Mr. Chairman, if I may, that means that we were told in April 1983 to stay out of the bank as far as this issue was concerned, and we did that. We stayed away from that issue completely. In fact, since we were not kept up-to-date as to the subsequent investigation we were surprised to learn about the grand jury, et cetera, and the ultimate pleading by the bank and its being fined the \$500,000. We knew nothing about that from April 1983 until the day that it appeared in the newspaper in February of this year.

Chairman ST GERMAIN. Mr. Stankey?

Mr. STANKEY. Yes; Mr. Chairman?

Chairman ST GERMAIN. Now when Mr. Powis wrote letters, did he do much of this at your request and under your direction?

Mr. STANKEY. Yes—well, at my request.

Chairman ST GERMAIN. At your request.

Were you aware that the Comptroller's Office was asked not to do anything further in this area, by Treasury?

Mr. STANKEY. Yes; that's a standard procedure within the Treasury Department, once a criminal investigation has been authorized at a bank, we notify the regulatory agency of the criminal investigation and request that they not examine the bank for compliance with the Bank Secrecy Act until the criminal investigation has been completed, in order that—to preclude possible interference with that criminal investigation.

Chairman ST GERMAIN. But isn't the whole purpose of the Bank Secrecy Act to have these reports filed, Mr. Stankey?

Mr. STANKEY. Yes.



Chairman ST GERMAIN. Did you at this point know, Mr. Stankey, that the Bank of Boston was not filing their CTR's for international transactions?

Mr. STANKEY. I had a pretty good idea that they weren't at the time we sent the initial referral to the Comptroller, and the memo to the Comptroller pointed it out. It pointed out the fact that I had had a conversation with Mr. Dormer and that there was a clear indication that Mr. Dormer was not aware of the reporting requirements with respect to shipments to and from foreign banks.

Chairman ST GERMAIN. That was when? That was in 1982, right?

Mr. STANKEY. It was in July 1982.

Chairman ST GERMAIN. July 1982.

Mr. STANKEY. Right.

Chairman ST GERMAIN. OK; now, you said you had a conversation with Mr. Dormer. Mr. Dormer, in your opinion, didn't understand the requirements for reporting international transactions; right?

Mr. STANKEY. Right.

Chairman ST GERMAIN. What did you do about it?

Mr. STANKEY. We notified the Comptroller and asked him to do a special review of compliance with the Bank Secrecy Act and pointed out that there was general noncompliance in Massachusetts.

Chairman ST GERMAIN. Did you think that Mr. Dormer was willfully noncomplying, or did you feel that he didn't understand what he was supposed to be doing?

Mr. STANKEY. I got the impression that he didn't understand what he was supposed to be doing.

Chairman ST GERMAIN. Did you make any attempt to explain to him what he should be doing?

Mr. STANKEY. Yes; I told him that those reports had to be filed.

Chairman ST GERMAIN. Which reports had to be filed?

Mr. STANKEY. The 4789's and probably the 4790's.

Chairman ST GERMAIN. Mr. Dormer, did Mr. Stankey tell you that you should be filing those reports?

Mr. DORMER. We did speak of form 4789 and 4790 during our conversation. I had placed a call to Mr. Stankey to request information on the domestic exemption list. As I recall the——

Chairman ST GERMAIN. I thought that you weren't involved in the domestic exemption list.

Mr. DORMER. I was not involved with the entire domestic exemption list. I had a segment, and our retail branches had a segment.

Chairman ST GERMAIN. OK.

Mr. DORMER. As for the segment that pertained to the coin and currency department customers, Mr. Stankey had placed X's next to names of customers whom he felt required further explanation or did not belong on the list.

Because I had some procedural questions, I placed a call to him and spoke for some length of time——

Chairman ST GERMAIN. Mr. Stankey is now saying that he also asked you—or he found out in that conversation that you were not making out the reports you should have been making out as far as international transactions were concerned.

Is your memory getting better on that?



Mr. DORMER. Yes; on my copy of his letter to Mr. Cox, I have made a notation on the second page that refers to forms 4789 and 4790. I came away from that conversation with the impression that he was referring to individual people getting the money or taking the money out of the country, and since we did not deal with individuals in our department—we were a wholesale operation—I felt that it did not relate to the coin and currency customers.

Chairman ST GERMAIN. Mr. Stankey, you have heard what Mr. Dormer said.

Now, to the best of your recollection, did you also tell him that he should have been filing these reports for international bank transactions—cash transactions?

Mr. STANKEY. Yes; to the best of my recollection, we covered international shipments between banks and individuals.

Chairman ST GERMAIN. Rather than just individual customers?

Mr. STANKEY. Right, but—

Chairman ST GERMAIN. You then asked OCC to go in and check this out?

Mr. STANKEY. Right.

Chairman ST GERMAIN. Mr. Rollo with the OCC, says that he discussed this with Mr. Dormer, but Mr. Dormer says that he didn't talk to Mr. Rollo. That is what we have got on the table as of now.

Now, if you try to analyze this, you wonder, did Mr. Stankey try to sandbag the Bank of Boston and Mr. Dormer? Did somebody at the Bank of Boston, purporting to be Mr. Dormer speak to Mr. Rollo and then not tell Mr. Dormer, about the conversation?

I mean, this is very, very mind-boggling. Mr. Dormer, you seem to want to jump at the mike here.

Mr. DORMER. Mr. Chairman, in 1982, I would not have been able to have obtained 4 years of historical documentation on our foreign transactions. Our record retention schedule, until approximately 6 or 7 months ago, was for 2 years.

In addition to that, I do not believe that prior to July 7, 1980, we would have had to file foreign bank transactions.

Chairman ST GERMAIN. Mr. Connors, I interrupted you, but you can see there was a reason for it.

Mr. CONNERS. Well, one thing—

Chairman ST GERMAIN. Mr. Connors, what is your reaction to this?

Mr. CONNERS. Well, this memo has another page or two behind it, I believe, where it details—which is the same as that chart up there—more or less breaks down the transactions. We received that information. Tom called Mr. Dormer and received that information in the form of worksheets and such from his department to get that information together to reconcile the difference.

So, you know, there was no other place of getting this information I know of in the bank except from his department, and that is how we responded to the Treasury memo.

Chairman ST GERMAIN. Well, did you get it from Mr. Dormer or did you get it from his department?

Mr. ROLLO. Mr. Chairman, I believe I requested that information from Mr. Dormer.

Chairman ST GERMAIN. From Mr. Dormer himself?

Mr. ROLLO. Yes.

Chairman ST GERMAIN. By telephone?

Mr. ROLLO. Yes.

Chairman ST GERMAIN. Did you ever meet him before, at any point during the examination process?

Mr. ROLLO. No.

Chairman ST GERMAIN. Never ever?

Mr. ROLLO. No.

Chairman ST GERMAIN. But you feel you spoke to him on the telephone?

Mr. ROLLO. Yes.

Chairman ST GERMAIN. You have been able to listen to him again a few minutes now. Have you been trying to remember, was this the voice on the phone?

Mr. ROLLO. I can't remember that, Mr. Chairman.

Chairman ST GERMAIN. Mr. Connors, proceed.

Mr. CONNERS. There is another point I would like to bring up here, and that is our usual examination procedures call for us to—particularly when we have a violation of law in an area, which we did in that area, to cite it. I didn't cite the entire violation, but nevertheless I did cite a violation of law for 31-103—our usual examination procedures would be to concentrate in that area on the next examination and deploy more manpower and give a greater emphasis to that area.

That would have been in our examination plans, and I am not saying this as a second-guessing, or anything like that, but that is the way we always examine banks.

We have limited resources. We have to concentrate on the obvious problem areas, the violations of law.

We would have, under normal procedures, sent more people in that area and hopefully would have averted a lot of what is going on at this time right now; that is, it would have been 1983. We would have brought it to the bank's attention more directly and perhaps more forcibly.

I will say that in my experience with the Bank of Boston—I was the examiner in charge for two exams, both 1982 and 1983—the people in the bank, led by senior management, were very, very responsive to any of our criticisms. They were never—if we found a problem, they were very, very responsive.

Chairman ST GERMAIN. Excuse me. You say you examined in 1982 and 1983?

Mr. CONNERS. Yes, I did.

Chairman ST GERMAIN. OK. Now, in 1982 did you find noncompliance with the—

Mr. CONNERS. Yes; I did. It is cited in the report. That is under violations of law.

That is the September 30, 1982 report, Mr. Chairman.

Chairman ST GERMAIN. Excuse me, but this refers to financial records and reporting of currency in following transactions.

Mr. CONNERS. Yes.

Chairman ST GERMAIN. Although currency transactions between domestic banks are exempt from this currency regulation, noncompliance was noted in section 103.22(e). Who at the bank saw this report?

Mr. CONNERS. Who at the bank saw the report?

Chairman ST GERMAIN. Yes.

Mr. CONNERS. The senior management saw the report.

Chairman ST GERMAIN. Who, Mr. Brown, would have seen this at the Bank of Boston?

Mr. BROWN. Most of our senior officers and our board of directors and our audit committee would have seen the examination report.

Chairman ST GERMAIN. Would that include Mr. Wiley and yourself?

Mr. BROWN. Yes; I suspect Mr. Wiley saw it. I am not sure he did at that time.

Chairman ST GERMAIN. Mr. Wiley, do you recall seeing this report?

Mr. WILEY. I did not.

Chairman ST GERMAIN. You did not. But it was available to you as a senior officer?

Were you a senior officer in 1982?

Mr. WILEY. Had I asked for it, I expect that I would have had an opportunity to read it, but I was not informed of the regulations.

Chairman ST GERMAIN. Were there any other attorneys from the Bank of Boston who saw this, Mr. Brown?

Mr. BROWN. Yes. Mr. Griffin would have seen it.

You are not talking about this, you are talking about the examination report?

Chairman ST GERMAIN. I am talking about exhibit—excuse me. To help you, I am talking about—

Mr. BROWN. We didn't see this letter.

Chairman ST GERMAIN. No, no, not that. No, no, exhibit No. 22.

Ms. WILSON. Mr. Chairman, if I could clarify, it is our standard procedure to forward the report of examination directly to the board of directors of the bank. We feel that they are the key in terms of providing the overall direction to the bank and are the people that should receive the report of examination.

Included in the report is a signature sheet that each director is required to sign after he has reviewed the report.

Chairman ST GERMAIN. All right. Now we have just this one page in the report, and in here—do you have it in front of you, Ms. Wilson—exhibit 22? It says, "Report of Examination Commenced 9/7/82, Violations of Law for 31 CFR 103?"

Ms. WILSON. Yes, I do.

Chairman ST GERMAIN. Now, that penciled thing on the top, would that have gone to the board of directors in that manner, that it was a violation?

Ms. WILSON. No, it would not have. That is an extract from our report of examination that I would guess is probably—

Chairman ST GERMAIN. Are the violations cited in one section?

Ms. WILSON. Yes, they are.

Chairman ST GERMAIN. They are. Therefore, senior bank management and the board of directors are more easily made aware of the violations?

Ms. WILSON. That is correct.

Chairman ST GERMAIN. Rather than having to go through all the—



Ms. WILSON. In fact, in the organization of the report of examination, the first thing is a letter to the board of directors; the second thing is the violations of law.

Chairman ST GERMAIN. Now, was this forwarded to Treasury as well, since it was a violation of the Bank Secrecy Act?

Ms. WILSON. As part of our normal reporting to Treasury, on a quarterly basis we submitted reports to them that would indicate the number of violations that we had found throughout the country and would also include details on individual banks.

Chairman ST GERMAIN. Mr. Stankey, did you see this particular report, of this particular violation of 31 CFR 103?

Mr. STANKEY. No, I didn't, not that I am aware of.

Chairman ST GERMAIN. Do you have others in your office that go over these submissions from OCC?

Mr. STANKEY. Yes, but I don't recall anyone, you know, picking up any details from OCC unless it was in a very summary form. I would have to review that quarterly report.

Chairman ST GERMAIN. Mr. Connors, this says noncompliances noted with section 103-22(e).

Mr. CONNERS. Yes.

Chairman ST GERMAIN. What is that?

Mr. CONNERS. That is the cite of the regulation. As I said before, I should have also cited part 23 in there, too. It should be parts 22 and 23.

Chairman ST GERMAIN. Well, wait a minute now. What is section 103.22(e), since I don't have it in front of me?

Mr. CONNERS. I don't either, but it is—

Chairman ST GERMAIN. Mr. Rollo, do you know what it is?

Mr. ROLLO. I believe section 103.22, that cite that you are particularly looking at, refers to the inclusion of the domestic banks—

Chairman ST GERMAIN. Inclusion of what?

Mr. ROLLO [continuing]. Of domestic banks, correspondent banks on the bank's exemption list.

Mr. STANKEY. Excuse me, Mr. Chairman, 103.22 is the section that deals with all CTR transactions; in other words, the 4789 filings, all of them, regardless of whether it is a bank or the Angiulo's, or whatever it is.

Chairman ST GERMAIN. What I am trying to determine here is if somebody at the bank read this report of violation of law, would they from this been able to determine that among the violations was the lack of reporting of international currency transactions?

Mr. CONNERS. The answer is no.

Mr. CONOVER. That is correct; the answer is no.

Chairman ST GERMAIN. But in fact, didn't you find at that time that they weren't reporting their international currency transactions?

Mr. CONNERS. Yes, Mr. Chairman.

Chairman ST GERMAIN. Now, this is the examination in 1982.

Mr. CONNERS. It is the 1982 examination.

Chairman ST GERMAIN. Right. When were they examined prior to that?

Mr. CONNERS. I believe they were examined on an annual basis.



Chairman ST GERMAIN. On an annual basis. You weren't involved in the previous exam of 1981?

Mr. CONNERS. I was involved in the 1981 examination for several weeks.

Chairman ST GERMAIN. OK.

Mr. CONNERS. And I was also—

Chairman ST GERMAIN. During that examination, were there any violations found in the Bank Secrecy Act reporting requirements?

Mr. CONNERS. I don't know, Mr. Chairman. I was—

Chairman ST GERMAIN. I think Mr. Conover wants to respond.

Mr. CONOVER. Mr. Chairman, on page 2 of the chronology that is attached to my testimony, it says as item 2, "In October 1981, the OCC conducted a specialized examination of the bank. The examination did not use the revised Bank Secrecy Act procedures because they were not issued until after the relevant portions of the exam had been completed. No violations were cited."

[Pause.]

So they were not cited in 1981. The domestic violations were cited in 1982. The international violations were not cited in 1982, but should have been.

Chairman ST GERMAIN. Once you did find them, you told Treasury about it, and Treasury then said lay off—

Mr. CONOVER. Correct.

Chairman ST GERMAIN [continuing]. In your 1983 examination?

Mr. CONNERS. Yes, that is essentially what happened. We were told not to involve ourselves in that area, so we didn't.

Chairman ST GERMAIN. Mr. Connors?

Mr. CONNERS. Yes.

Chairman ST GERMAIN. Should the 1981 report have cited the fact that there was noncompliance with the reporting of international bank cash transactions?

Mr. CONNERS. Obviously, yes.

Chairman ST GERMAIN. No; tell me.

Mr. CONNERS. Yes; it should have.

Chairman ST GERMAIN. If that had happened, then the fine for the Bank of Boston would have been less?

Mr. CONNERS. Yes.

Chairman ST GERMAIN. Mr. Dormer's conversation with Mr. Rollo, or lack of it, and the conversation with Mr. Stankey, or lack of it, wouldn't be in controversy here today?

Mr. CONNERS. Could I qualify my "yes" there? I don't believe that area was reviewed in the 1981 examination. I am not sure it was reviewed in any depth at all in the 1981 examination.

Chairman ST GERMAIN. The requirements were still there?

Mr. CONNERS. The requirements, yes. The law was out.

Chairman ST GERMAIN. The law was there, and the regs had been issued in 1980.

Mr. CONNERS. The law was out.

Chairman ST GERMAIN. The regulations had been issued in 1980?

Mr. CONNERS. Yes; they had.

One other thing, I think to kind of put this in perspective here perhaps, in looking at—

Chairman ST GERMAIN. Mr. Connors, if you can put this in perspective, you are a miracle man. [Laughter.]

Mr. CONNERS. Well, I got a problem then.

What I will say is that we reviewed the bank's transactions, and our conclusion, as you can see from the chart, that the ones that they weren't properly reporting were the international ones. The bank has records that will quite easily reconstruct those. Those are bank-to-bank transactions. Those records really have to be kept because they are on bank account statements as opposed to somebody walking in off the street and dropping \$10,000 in the bank and getting a cashier's check. There wouldn't be much of a record of that. But these there were records of.

The other thing in putting it in perspective from the Comptroller's viewpoint and perhaps the bank's, too, is that we were not looking at what we perceived to be a money laundering operation. What we were looking at was a fact of not reporting.

Money laundering was simply—I didn't conceive this as a money laundering operation. I felt that the records were there, they could be reconstructed if anybody needed them.

Chairman ST GERMAIN. Are you telling me that, as an examiner, if you don't think that a particular noncompliance is a violation of something then you are going to look the other way?

Mr. CONNERS. No, absolutely not.

Chairman ST GERMAIN. I mean, who are you to say that the—No. 1, they paid a half a million dollar fine, so I guess somebody must have thought that noncompliance and nonreporting was a rather serious violation.

Mr. CONNERS. I consider it a serious violation, too.

Chairman ST GERMAIN. Now you do.

Mr. CONNERS. I put the violation in the report.

Chairman ST GERMAIN. You just finished saying that you didn't consider the nonreporting there a money laundering problem.

Mr. CONNERS. I did not consider it a money laundering problem, no.

Chairman ST GERMAIN. Do you know the source of those funds that were sent over from the Swiss banks, Mr. Connors?

Mr. CONNERS. No, I do not.

Chairman ST GERMAIN. So how can you say that it wasn't a money laundering situation?

Mr. CONNERS. I can't say that.

Chairman ST GERMAIN. Well, you just said that. You said you didn't consider it a money laundering situation.

Mr. CONNERS. I said I did not consider it a money laundering operation. I considered it part of the bank's business. I also felt from Mr. Rollo's conversation—

Chairman ST GERMAIN. Well, wait a minute. You can't have it both ways.

Mr. CONNERS. What?

Chairman ST GERMAIN. You said you considered it part of the bank's business. You were here earlier when we discussed \$2 million in small bills coming over and \$2 million in \$100 bills going back within a 3-day period; were you not? In the audience room we discussed that.

Mr. CONNERS. Yes.

Chairman ST GERMAIN. Can you unequivocally in your own mind, stand up and say, "Well, that's not money laundering; it's just ordinary business?"

Mr. CONNERS. No; my point here was that I believed the bank was going to report and was working with Treasury and all this would be cleared up.

Chairman ST GERMAIN. This is 1982.

Mr. CONNERS. In 1982. I believed that there was an ongoing effort between the bank and Treasury at that time and that these transactions were in the process of being reported and as such would give Treasury whatever information they needed.

Chairman ST GERMAIN. But neither you, Ms. Linville, Mr. Gridley—and I don't know how much Mr. Dunham knew about it or Mr. Rollo; felt that this was serious enough to followup on with either Treasury or Mr. Dormer to determine—and this is before the 1983 examination—a letter to go in there. This was back in 1982. The man said, "3 weeks and I'll have it for you." So you wrote a memo to Ms. Wilson, with a copy to Mr. Gridley, and then you went to your next bank examination. You just forgot about it.

Did you feel that the followup, if any, should have been done by the people to whom you addressed the memo to?

Mr. CONNERS. Well, I'd like to emphasize the fact that we responded very promptly to this memo. Tom was working 200 miles away; I called him right back into the bank; we went right over this work and we responded in a relatively short turnaround period, in 6 days. I was in the bank—

Chairman ST GERMAIN. I appreciate that and I commend you for it. My question is: You then wrote a memo—

Mr. CONNERS. Yes.

Chairman ST GERMAIN [continuing]. Addressed to Karen Wilson and Ralph Gridley with their respective titles?

Mr. CONNERS. Yes.

Chairman ST GERMAIN. Now, then you go on to your other work, which was also very monumental and that was the end of that incident as far as you were concerned?

Mr. CONNERS. No, it's not the end of it, Mr. Chairman. The normal procedure is to followup, as I mentioned before, in the next examination. Copies of this memo, copies of the violations, copies of all the workpapers are retained and the next examination we would have concentrated on this.

I did assume that when I sent this memo, if there was a problem, if I had not answered it correctly, if there was more followup to be done, that somebody would have come back to me.

Now, I want to emphasize, it's not a case of forgetting things but, you know, when I left this bank I was in Houston, TX, for 4 or 5 weeks after that.

Chairman ST GERMAIN. I realize how busy you are. Then, of course, we have Ms. Wilson, who is also very busy. So, Ms. Linville, her assistant at the time read the memo. She then sent it to Treasury.

Ms. LINVILLE. I'm not sure I sent it or hand delivered it to them because I met with them on several occasions in person.

Chairman ST GERMAIN. You hand delivered it to Mr. Stankey?



Ms. LINVILLE. Or Mr. Landreth. Mr. Landreth was more involved in this situation at the time.

Chairman ST GERMAIN. Mr. Stankey?

Mr. STANKEY. Mr. Chairman, I'd like to point out that on December 8, we sent up a followup memo to Ms. Wilson from Mr. Powis requesting the status on all of the Massachusetts banks indicating that we had not had a response.

Chairman ST GERMAIN. You mean you didn't get this response on the Bank of Boston?

Mr. STANKEY. We had no record of receiving a response on the Bank of Boston or any of the other banks.

Ms. LINVILLE. I followed up on that request and we sent them another copy of that memo. I know that they received a copy of the memo because I responded to that letter and it stated in there that we had sent the papers to Treasury. I had checked with Treasury before I put that in the memo.

Ms. WILSON. Mr. Chairman, I believe if you'll look at the December 8 memo, it does not indicate that they were lacking information on the Bank of Boston but, instead, asks that we provide followup on the other banks that they had referred to us implying that they had actually received followup on the Bank of Boston.

Chairman ST GERMAIN. Ms. Wilson, I'm looking at the December 8, 1982 memorandum. Where do you see that they're not asking for anything on the Bank of Boston?

Ms. WILSON. The September 21 memo specifically requested information on the Bank of Boston. This memo indicates that they are sorry that they did not ask us for followup information. And from that we understood it to mean that they meant the followup information on the other banks that they had referred in that prior memo because we had provided them with the other information.

Chairman ST GERMAIN. That's your understanding.

Ms. WILSON. That's my understanding.

Chairman ST GERMAIN. Mr. Stankey?

Mr. STANKEY. Yes, Mr. Chairman?

Chairman ST GERMAIN. We are now told that you received two copies of that memorandum.

Mr. STANKEY. Well, we don't have a letter or memorandum of transmittal indicating that there is any response from Ms. Wilson to Mr. Powis and ordinarily we operate in a fairly bureaucratic manner in which communications of this sort are transmitted through channels. We do not have a copy of a memo of that nature.

The reason for this December 8 memo was, in fact, that we were getting impatient with not having the additional detailed information that we wanted because there was never any doubt, at least in my mind, that there should be some interesting material developed at the Bank of Boston because, first of all, they had only filed about—I think it was something like 54 or 55 CTR's, which is miniscule for a bank of that size. So it was obvious just from that that they were not in compliance, not only with the international transaction reporting, but in general.

When you consider the entire State of Massachusetts files—or at that time was filing—between 2,500 and 3,500, 4,000 CTR's for the whole State and one of the banks in Florida would file more than that itself.



So we knew that there was noncompliance. Just a question of having a specific documentation so that we could take action.

Ms. LINVILLE. I'd just like to clarify something. We received word from Treasury that they did not receive the first copy we sent to them and so I got——

Chairman ST GERMAIN. This is by phone?

Ms. LINVILLE. By phone, yes.

Chairman ST GERMAIN. You're sure that was Treasury and not Mr. Dorman?

Ms. LINVILLE. I recognized both their voices over the phone, readily.

Chairman ST GERMAIN. OK.

Ms. LINVILLE. I probably talked to either Mr. Stankey or Mr. Landreth at least every other week during this time period and never did they tell me, well, where's the stuff that you said you were going to send us. I mean, I understood that they got the memo the second time. I don't think they got it the first time.

Chairman ST GERMAIN. But you hand carried it? Which time?

Ms. LINVILLE. I believe that I hand carried it, I don't believe I took it over there. Mr. Landreth came to my office and I believe I handed it to him at that time.

Chairman ST GERMAIN. What time of day was that?

Ms. LINVILLE. I can't tell you exactly when it was.

Chairman ST GERMAIN. Was it the end of the day? You think maybe you went out to shoot pool afterward or something?

Ms. LINVILLE. I'm not very good at pool.

Chairman ST GERMAIN. Well, I mean, not you, he.

Ms. LINVILLE. Oh. I don't know what he does in his spare time.

Chairman ST GERMAIN. Mr. Stankey.

Mr. STANKEY. We've checked our files; we're unable to find it. I've asked Mr. Landreth about this because as I stated before we were very interested in receiving the information. The information—if—frankly I think if I'd seen the remark in there that the First National Bank of Boston was making arrangements to file these 4789's with us, that we would have taken some sort of follow-up action on it to see what it was all about.

Chairman ST GERMAIN. Let's go to your December 8, 1982 memo; Mr. Stankey?

You say you never received a reply to that?

Mr. STANKEY. I think we received a reply in April.

Ms. LINVILLE. That's correct, Mr. Chairman, and I believe you'll find in the April memo our interpretation of Mr. Stankey's request is carried out in that we state that we had sent him information on the Bank of Boston.

It's in the third complete paragraph there and despite the constant contact that Ms. Linville had with him, we never received any feedback from Treasury saying that they had not received that——

Chairman ST GERMAIN. Despite what contact?

Ms. WILSON. Despite the frequent contact Ms. Linville had with Treasury, we never received any feedback to indicate that they had not received that information.

[Pause.]

Chairman ST GERMAIN. Mr. Stankey, did you see that letter from Mr. Powis?

Mr. STANKEY. Yes, I did. It's my recollection that at that point we may have made a few phone calls to see if we could get a copy of it but it was about that time—or at least in April of that year—that the request for a criminal investigation came in and was authorized and so it didn't have the significance that it had before that time.

Chairman ST GERMAIN. I think this is almost unfair. The regulators found noncompliance and yet they let them go—you were fined for 1980 through 1984, Mr. Brown? Yet they found in 1982, August 1982, that you were in noncompliance from what we've heard; right?

Mr. BROWN. Yes, sir.

Chairman ST GERMAIN. So if action had been taken then, you'd be fined for 1980, 1981, and 1982, instead of 1980, 1981, 1982, 1983, and 1984. So you got 2 extra years out of this.

Mr. Stankey, isn't that a fact, because people can't remember whether they talked to the right people?

Mr. STANKEY. I don't think it's quite that unfair in that the settlement was \$500,000, which is really only one violation.

Chairman ST GERMAIN. Well, Mr. Stankey, I think that the \$500,000 is part of the punishment here, so to speak, but just as important is the facts. How long was there noncompliance? I'm not saying that the Bank of Boston shouldn't have been complying. They shouldn't have known but, golly, when the regulators find that they are in noncompliance—Mr. Rollo says he spoke with Mr. Dormer. Mr. Dormer says—you're not an absentminded man; are you, Mr. Dormer?

Mr. DORMER. No, sir.

Chairman ST GERMAIN. I mean, I had this professor in high school, and every now and then he'd go out front to the main building of the school to look for his car and his car wasn't there. His car was in the garage a mile down the line. He was absentminded, could never remember where he left his car. He was a great man and a brilliant man, but that happens to some people.

Mr. Rollo didn't talk to you?

Mr. DORMER. To the best of my recollection, I do not recall having spoken to any examiner during this entire time period that we're talking about.

Chairman ST GERMAIN. Mr. Connors, did you want to explain a little more now?

Mr. CONNERS. I don't know what I can say.

Chairman ST GERMAIN. Remember, you had asked for some time on your own. You asked my staff if we could let you talk.

Mr. CONNERS. Again, did we talk to Mr. Dormer? It's understandable maybe—Mr. Dormer is obviously a very busy man. It's understandable perhaps he forgot the conversation. The information that we used for that memo came from Mr. Dormer's department through Mr. Dormer. There is no—it came from his department. Whether Mr. Dormer sent it or was aware of it, I don't know.

As you can see, if you look at the second page of that memo, we reconciled 4 months' worth of cash shipments. There is no other

way of reconciling 4 months' worth of cash shipments except getting the information from his department.

Chairman ST GERMAIN. Mr. Dormer, did you know that the Comptroller's Office was in there at that point in time, in August 1982?

Mr. DORMER. I was unaware of them being in our facility at any time, sir.

Chairman ST GERMAIN. You weren't aware of them being in your facility at any time?

Mr. DORMER. I shouldn't say the facility; it's a large facility. But as to our department, I'm unaware of them having been in our department.

Chairman ST GERMAIN. Your department. Is your department the one where they'd get the information on the international Swiss transactions, currency transactions?

Mr. DORMER. Yes, it is, sir.

Chairman ST GERMAIN. Well, how in the name of french-fried potatoes did you think they got this information, Mr. Dormer? Did they get a crystal ball or did they have some secret device that we don't know about? Did they train a laser beam on your department? They didn't go in physically?

Mr. DORMER. That information is available in other parts of the bank through monthly memos——

Chairman ST GERMAIN. Mr. Connors, are you paying attention?

Mr. CONNERS. Yes, I am.

Chairman ST GERMAIN. Go ahead, Mr. Dormer.

Mr. DORMER. The information that I see there and am looking at in front of me is available on a monthly basis in at least seven or eight separate places within our bank. It is found in a memo that I send out on volume statistics.

Chairman ST GERMAIN. Mr. Connors and Mr. Rollo, did either of you physically go into Mr. Dormer's department?

Mr. ROLLO. No.

Chairman ST GERMAIN. What?

Mr. ROLLO. No, Mr. Chairman.

Chairman ST GERMAIN. No?

Mr. Connors?

Mr. CONNERS. No, I did not, sir.

Chairman ST GERMAIN. Well, how did you get this information if you didn't go in?

Mr. CONNERS. I requested it over the telephone from Mr. Dormer, based on the September 21 memo from Mr. Powis, which stated Mr. Dormer was in charge of the coin and currency operation at First National Bank of Boston.

Chairman ST GERMAIN. You requested this by telephone?

Mr. CONNERS. Yes.

Chairman ST GERMAIN. It was sent where?

Mr. CONNERS. It was sent to where I was working at the main office.

Chairman ST GERMAIN. The main office, the Office of the Comptroller of Currency?

Mr. CONNERS. No, the main office at the Bank of Boston, where we——

Chairman ST GERMAIN. The main office for the Bank of Boston?



Mr. CONNERS. Right.

Chairman ST GERMAIN. What did you then do with that material? How did it get to you?

Mr. CONNERS. I believe it must have come through interoffice mail, Mr. Chairman.

Chairman ST GERMAIN. With no covering letter?

Mr. CONNERS. Not that I can remember, no.

Chairman ST GERMAIN. You operate in mysterious ways.

Sure, if you can help out; right.

Mr. Rollo, did you want to make any statement here? Or, is Mr. Connors speaking for both of you about this chart?

Mr. ROLLO. No, I believe Mr. Connors is speaking for both of us on this chart.

Chairman ST GERMAIN. Does anyone else from the Comptroller's Office have anything to offer to help me out here? This is very confusing.

Mr. CONNERS. I don't understand what the confusion is.

Chairman ST GERMAIN. You don't understand what the—well, I will tell you what the confusion is. Mr. Rollo says he spoke to Mr. Dormer. Mr. Dormer says he didn't speak to Mr. Rollo. Mr. Rollo says he got the information from Mr. Dormer's department. Mr. Dormer says he wasn't aware of any—am I correct?—of any inquiries to you.

Mr. DORMER. That is correct, sir.

Chairman ST GERMAIN. You don't think that's confusing, that Mr. Stankey says he didn't get the memo from Ms. Linville? Ms. Linville handed it to the chap, but we don't know what time of day, whether it was given to Mr. Stankey's assistant, cohort, or what—have you.

You don't—this is better—this makes "I Love a Mystery" look sick. Trying to unravel this is unbelievable. It's not funny. I'm confused, Mr. Connors. That's why I'm going to ask Mr. Cooper to ask a few questions.

Mr. COOPER. Thank you, Mr. Chairman.

I would like to read a brief paragraph here that sounded very familiar to what the Bank of Boston's new policy will be to guarantee no future breaches of the Bank Security Act.

One such policy,

And I'm quoting the book here:

Is know your customer, that policy advises employees that it is the policy of the bank to do business only with individuals, businesses and other entities whose reputations are sound. Furthermore, the employee who establishes the customer relationship is charged with the responsibility to determine that customer's character and reputation. Corporate policy directs the employee to notify an appropriate senior vice president, division head or subsidiary head immediately when it appears that the bank's reputation and that of the customer are not compatible for any reason. Finally, inquiries regarding suspicions concerning a customer's reputation are to be directed to the appropriate authority.

To me, that sounds similar to the Bank of Boston's new policy and I hope that the Bank of Boston's new policy will be more effective than this one. But I'm reading to you the changes implemented by the Chemical Bank of New York, the first financial institution to be indicted under the Bank Secrecy Act in 1977. And you'll recall that just on March 26 of this year, Chemical Bank once



again, as it puts it, voluntarily steps forward, being as it also puts it, adhering to its standards of corporate citizenship, Chemical Bank once again is not complying with the Bank Secrecy Act.

To me, it's part of what I was trying to mention earlier, the repeat violations that we see already in this area. Take a firm like Deke Perrara, for example, 1978, it was fined about \$60,000 this last year. Fined again, only this time, the amount was a little bit higher, \$572,000.

The book from which I was reading is "The Cash Connection: Organized Crime, Financial Institutions, and Money Laundering," an interim report to the President of the United States and the Attorney General. It contains several recommendations, but the bottom line is that about \$5-\$15 billion a year of illegal drug money that originates in the United States is laundered through the international financial networks. Penalties in the neighborhood of half a million dollars, even though it's the largest single penalty, I guess, ever levied, to me, still aren't in the ballpark to be a sufficient financial incentive for a large institution to stop its current activities and to really be on its toes to prevent future ones.

So I would like to ask Mr. Conover if he in any way participated or was involved with the Justice Department determination that half a million dollars was appropriate in this case.

Mr. CONOVER. No, we were not involved. If you recall, we were asked to stay out of the bank as far as the Bank Secrecy Act was concerned in April 1983. We had absolutely nothing to do with the Justice Department's case—no contact whatsoever, and no information on the subject until not too long ago when I got a phone call that informed me, "Tomorrow morning, you are going to read an article in the newspaper about the Bank of Boston pleading guilty and being fined \$500,000." I had no contact with the Justice Department on that subject whatsoever.

Mr. COOPER. Do you think it would be appropriate in the future if the Justice Department notified you so that you could participate, since it's your group's responsibility to monitor the behavior of national banks. It would seem that penalties imposed by Justice could have a deterrent effect on other banks and could make your job easier in the future if a sufficient penalty is levied?

Mr. CONOVER. I think there ought to be better cooperation and communication among all of the bank regulatory agencies and the Justice Department.

You might have noted that there was an agreement signed yesterday by the Attorney General and the depository institution regulatory agencies establishing a common way of making criminal referrals, common training of examiners on matters relating to bank fraud, and the like. It would seem to me logical that that agreement, or at least the spirit of that agreement, could, and should, be extended to Bank Secrecy Act matters.

Mr. COOPER. I think that would be helpful.

Do you see your office pushing and initiating requests like that from the Justice Department?

Mr. CONOVER. Yes, I do. We'll be in contact with the Justice Department on that issue.

Mr. COOPER. What is your opinion of increasingly heavy fines in situations such as this? Do you think they would have a deterrent effect in the industry or not?

Mr. CONOVER. I think there's a need for some broader legislation dealing with the subject of money laundering. The bill that has been introduced by Mr. McCollum and another one by Senator D'Amato offer some promise in this area. Money laundering, when someone engages in it knowingly, ought to be a crime; as I understand it, it currently is not. Also, there ought to be stiff penalties for engaging in money laundering.

I would hasten to add, however, that the penalties ought not to be so stiff as to break the bank. I was a little concerned about some of the penalties included in at least one of those bills because I thought they could literally cause a bank to fail if a fine were levied. In that case, a good number of innocent parties would be harmed.

I also think we need to toughen up on exempt list requirements. And, frankly, I have to agree with something that was said earlier today. When a list of types of enterprises eligible for exemption is provided, that may be extending an invitation to organized crime to engage in those kinds of businesses.

Mr. WYLIE. Would the gentleman yield on that point?

Mr. COOPER. Yes.

Mr. WYLIE. Would you recommend that we do away with the exempt list?

Mr. CONOVER. It would be awfully tempting to say yes, Mr. Wylie. I'm not sure about that. I think that there must be thousands of legitimate businesses that ought to be properly exempt. I think that we ought to be very careful as to how people get on exempt lists, and we probably ought to reexamine the types of businesses that ought to be on them and see how many businesses in the country fall into those categories. But it's too easy to say let's just do away with exemptions. I'm afraid that's a kneejerk reaction that might cause more harm than good.

Mr. WYLIE. Don't we have a paperwork problem either way? Right now, the volume of reports is so great that it's almost impossible even for a computer to monitor what's going on.

Mr. CONOVER. As I understand it, last year there were 700,000 CTR's filed; that's a problem.

Mr. WYLIE. So completely abolishing the exempt list would probably lead to even more paperwork?

Mr. CONOVER. It might. We heard earlier that there were between 44 and 75 enterprises on the Bank of Boston's list. I don't know how many there would be on an average exempt list.

Mr. WYLIE. Would the gentleman yield again on that and I'll follow up?

Would it be helpful to have a little more detailed information on the application for exemption?

Mr. CONOVER. Yes, it certainly would seem to be. However, I don't even know if there is an application, to tell you the truth. Is there an application to get on the list?

Mr. WYLIE. Well, maybe there isn't but—

Mr. CONOVER. One of the problems with the exempt list, as I understand it, is that it's a list of company names, period. If you see,

for example, Conover Enterprises on the list, you don't have the foggiest notion what Conover Enterprises is, what it does, who owns it, or anything else about it. It might help you if it said Conover Realty Enterprises, or Conover Saloon.

Chairman ST GERMAIN. Or nonbank banks?

Mr. CONOVER. Or nonbank banks, right. [Laughter.]

Chairman ST GERMAIN. I couldn't resist.

Mr. CONOVER. That would be a domestic bank on the exempt list, Mr. Chairman, but——

Mr. WYLIE. I might ask if the gentleman would yield one more question for me to follow up on that, it's my understanding that the determination as to what customers should be on the exempt list is made by the financial institution.

Is that right, Mr. Stankey?

Mr. STANKEY. Primarily, that's correct. As to individual customers, the list, as you know, does include a designation of the type of business. So that, you know, anyone can look at the list and determine whether or not it's a realty company or an automobile dealership, or whatever.

If there isn't an obvious qualification under the regulations, then the special exemptions have to be approved by the Treasury Department on an individual basis.

Chairman ST GERMAIN. Mr. Rollo, where do you live?

Mr. ROLLO. Weymouth, MA.

Chairman ST GERMAIN. Mr. Connors.

Mr. CONNERS. I live in Westwood.

Chairman ST GERMAIN. Westwood?

Mr. CONNERS. Westwood, yes.

Chairman ST GERMAIN. Do you read the Boston newspapers or the Westwood paper?

Mr. CONNERS. When I'm home.

Chairman ST GERMAIN. When you're home. Well, seriously, do you read the Boston papers?

Mr. CONNERS. Yes, I do.

Chairman ST GERMAIN. OK, and Mr. Rollo.

Mr. ROLLO. Yes.

Chairman ST GERMAIN. OK. The reason I asked, to jump in here, is Mr. Conover just made a point. You see a corporate name. What does it mean? We talked about earlier, you know—there's the corporate veil.

Did you, Mr. Rollo and Mr. Connors, in your examinations of the Bank of Boston and their compliance with the Bank Secrecy Act on the domestic side of the ledger, look at the firms on the exempt list? Did you?

Mr. ROLLO. Yes; that's the normal procedure in the cash program.

Chairman ST GERMAIN. When you say Federal and Huntington, did you know who those were? Who those principals were?

Mr. ROLLO. No, Mr. Chairman.

Chairman ST GERMAIN. Did you inquire of anyone at the Bank of Boston about who the principals were in the businesses that just use fancy names, so to speak?

Mr. ROLLO. No, Mr. Chairman.

Mr. WYLIE. Would the chairman yield on that point?



In the testimony of Mr. Conover here, it says that the first module consists of a three-part evaluation of the bank's compliance to the Bank Secrecy Act. A part of that report is whether the bank's exemption list is reasonable.

What does that mean, whether the bank's exemption list is reasonable? Who writes the first module report?

Chairman ST GERMAIN. By the way, Mr. Connors, I've got to tell you, those instructions that you sent out for compliance with the 1980 regulations—if they were followed, I think they're pretty good.

Mr. CONOVER. I think you're right.

Chairman ST GERMAIN. But, the trouble is—we'll get to that later.

Mr. CONOVER. I understand the problem.

Mr. WYLIE. But who would make that determination? The examiner? And then I guess the followup question is, would the examiner be qualified to determine whether the bank's exemption list is reasonable, or does he just take the word of the chief executive officer that the bank's list is reasonable?

Mr. CONOVER. The examiner would make the determination. But making the determination that it's reasonable doesn't mean that he has to do a background investigation on each and every company on the list. I think it's obvious on the face of it, however, that he ought to do more than just read the list.

Chairman ST GERMAIN. As I recall reading don't your instructions ask them to go to some of the branches?

Mr. CONOVER. Yes; that's in what we call module 2, in verification procedures.

Chairman ST GERMAIN. Right.

Did Mr. Rollo and Mr. Connors ever go to the North End branch?

Mr. ROLLO. No, sir; we did not.

Mr. CONNERS. No, Mr. Chairman.

Chairman ST GERMAIN. Did you ever talk to any of the other examiners, who examined Bank of Boston, to determine if any of them ever visited—there are some good Italian restaurants there, by the way. I mean for lunch. [Laughter.]

Mr. CONNERS. No; we did not do any branches of the Bank of Boston. We no longer do branches.

Chairman ST GERMAIN. How about this module 2 though?

Mr. CONNERS. Module 2 is to be used if you suspect or have reason to believe there are problems in the exemption list or the handling of the CTR's.

Chairman ST GERMAIN. So what you're saying is that Boston region 1—is that it?

Mr. CONNERS. Yes, Mr. Chairman.

Chairman ST GERMAIN. You're saying that there have never been any problems with the exempt list in region 1?

Mr. CONNERS. No; I didn't say that.

Chairman ST GERMAIN. What? You said you haven't been to any branches and module 2 says you only go to a branch if there appears to be a problem.

Mr. CONNERS. We're talking about the Bank of Boston here.

Chairman ST GERMAIN. Any bank in region 1.



Mr. CONNERS. I don't know. I honestly don't know whether we've been—we do go to branches in smaller banks, yes, and we do, in certain instances, I believe we have done module 2. I can't state which ones.

Chairman ST GERMAIN. Mr. Conover, have there been any module 2 examinations when you've gone into branches to check exempt lists?

Mr. CONOVER. Yes; there certainly have been module 2 examinations. For example, in Miami we do it in every exam.

Mr. WYLIE. How often do you do module 1 examinations for a bank?

Mr. CONOVER. Module 1 procedures are used in every comprehensive and community bank exam. In terms of frequency, that's—  
[A pause.]

Mr. CONOVER. Once a year for large banks.

Chairman ST GERMAIN. As I recall from your testimony, you all said that the examiners don't have to do all the module 1 procedures.

Mr. CONOVER. That is correct.

Chairman ST GERMAIN. It's left to their discretion?

Mr. CONOVER. That is correct.

Mr. WYLIE. Though it could go for a long period of time for a determination as to whether the bank's exemption list is reasonable or not, even under a module 1 examination.

Is that right?

Mr. CONOVER. I believe that's right.

Mr. WYLIE. So it's possible that in this case, in the *Bank of Boston* case, that there was an extended period of time during which an examiner didn't make a determination as to whether the bank's list was reasonable.

Mr. CONOVER. We have a banking issuance that is at Treasury for review at the moment that will require that module 1 procedures be used in every comprehensive examination.

Mr. WYLIE. So I guess the answer to my question is yes.

Mr. CONOVER. We are in the process of correcting that deficiency.

Chairman ST GERMAIN. Going to exhibit 26, Ms. Linville and Mr. Dunham.

Ms. LINVILLE. I'm sorry. I didn't hear that.

Chairman ST GERMAIN. Exhibit 26. The next ones would be 26 and 27. Number 26 refers to the Hyatt Regency Hotel in Chicago.

Ms. LINVILLE. Yes.

Chairman ST GERMAIN. First National Bank of Boston. It says—is that Shawmut Worcester County?

Ms. LINVILLE. Yes; it is.

Chairman ST GERMAIN. I'm starting from the left, with No. 1.

Ms. LINVILLE. Worcester County. NA is the name of the bank.

Chairman ST GERMAIN. Right. In process. Requested to do verification procedures.

Then NB of Hamden County, examination March 14, 1983, requested verification procedures.

Shawmut-Bristle County. That's not the Shawmut that we're going to have here tomorrow; right? That's a different one.

Ms. LINVILLE. That's a different one.

Chairman ST GERMAIN. New Bedford, will do verification procedures.

Now, with this one, incidentally, there are notes of a conversation between yourself and Mr. Dunham.

Ms. LINVILLE. Well, these are notes partially between myself and either Mr. Stankey and Billy Landreth, and then what I turned around and talked with Roy Dunham about.

Chairman ST GERMAIN. As of now, these notes suggest that what would be helpful would be if we could document what procedures they want.

Who are "they"?

Ms. LINVILLE. Treasury.

Chairman ST GERMAIN. Treasury. These are notes to yourself?

Ms. LINVILLE. That was a question Roy Dunham posed to me, that I wrote on this paper.

Chairman ST GERMAIN. Then we go to page 2; right?

Ms. LINVILLE. I just want to clarify these two pages.

Chairman ST GERMAIN. Right.

Ms. LINVILLE. When I talked to your staff members, I misinterpreted the fact of when these two papers were done. They were done at two different times and I had looked at them briefly and thought that I did them at the same time.

Chairman ST GERMAIN. OK.

Ms. LINVILLE. The paper that has "Richard Alexander" at the top, I'm not sure which order you have them in.

Chairman ST GERMAIN. It also has a No. 3 on the left.

Ms. LINVILLE. No. 3 and No. 4 then were done sometime between the September memo from Treasury and the October 8 memo that we received from the examiners.

Chairman ST GERMAIN. How about No. 2, region 1 banks, Roy Dunham.

Ms. LINVILLE. This second set was done sometime between February and mid-March when I drafted a response to Treasury.

Chairman ST GERMAIN. Of 1983?

Ms. LINVILLE. Of 1983.

Chairman ST GERMAIN. So that one states, 31 CFR 103 region 1 banks, arrow, "Roy Dunham, examination 528-82, no verification procedure, didn't find any problems." Right?

Ms. LINVILLE. Right.

Chairman ST GERMAIN. "But had controls and list of exempt customers"—"bank had control and list of"—what do you mean by "controls"?

Ms. LINVILLE. Well, let me explain what these notes are.

Chairman ST GERMAIN. OK.

Ms. LINVILLE. We got the second letter from Treasury saying we neglected to ask for information on the other banks. Please follow-up with an interim report.

I was asked to draft the memo for that interim report. I called up either Mr. Stankey or Mr. Landreth, I really can't tell you which one I dealt with on this, and clarified which banks they were interested in at that time, because it was February when I got the memo.

The banks named on here are the ones they specifically wanted to know more information about. I then did some research on my

own by pulling reports of examination and looking at our data base.

Chairman ST GERMAIN. Excuse me, but if that's the case, then they wanted to know more information about the Bank of Boston?

Ms. LINVILLE. They wanted an interim report on what we'd done in the banks on the list.

Chairman ST GERMAIN. Including Bank of Boston?

Ms. LINVILLE. Other than Bank of Boston.

Chairman ST GERMAIN. Other than.

Ms. LINVILLE. Right.

Chairman ST GERMAIN. Where is that noted here?

Ms. LINVILLE. Pardon me?

Chairman ST GERMAIN. Where, well, it says here—

Ms. LINVILLE. Well, this list is taken off that list that came with the September memo.

Chairman ST GERMAIN. OK, where it says "31 CFR 103," and then "Bank of New England" with a slash through it, what does that mean?

Ms. LINVILLE. Well, when Roy and I were talking—

Chairman ST GERMAIN. Were you doodling?

Ms. LINVILLE. No. When Roy and I were talking, I thought he was talking about Bank of New England. When I went to Shawmut, I found out he was in fact talking about that bank so I scratched it out and changed it.

Chairman ST GERMAIN. So those notes on the page circled 2—

Ms. LINVILLE. Are Shawmut.

Chairman ST GERMAIN. Shawmut will be examined during June 1983.

Ms. LINVILLE. Right.

Chairman ST GERMAIN. Then there's Bank of New England, no violations and no verification procedures? Did followup with the audit? Is it centered, with some branches not reporting, or have you looked at them and found reasons for branches to report?

Ms. LINVILLE. No, they found no reason for them to report.

Chairman ST GERMAIN. Back with the glasses.

Ms. LINVILLE. The "no" is stuck in there.

Chairman ST GERMAIN. OK, now we go to Richard Alexander. It says, "Talked about 1st of Boston."

Ms. LINVILLE. No; this was done in September or October. This had nothing to do with this.

Chairman ST GERMAIN. Of 1982 or 1983?

Ms. LINVILLE. Of 1982.

Chairman ST GERMAIN. Of 1982. And then this conversation, "Roy Dunham talked about 1st of Boston and Treasury requests." Right?

Ms. LINVILLE. Right.

Chairman ST GERMAIN. "Feedback on compliance, list of cash shipments from correspondent banks, 4-month period, January-April shipments."

Ms. LINVILLE. That's what they asked us to do.

Chairman ST GERMAIN. Yes, so that's what we have there; right?

Ms. LINVILLE. Right.

Chairman ST GERMAIN. "Other banks noted will need full compliance, Treasury may want some info as list of cash shipments



above for those. Have examiner keep track of time spent on two." That's a list of cash shipments to and from correspondent banks.

It doesn't mention anything about foreign banks; does it? Or, do you consider the foreign banks, correspondent banks?

Ms. LINVILLE. I'm sorry, I didn't hear what you said.

Chairman ST GERMAIN. I note, on page 3, No. 2, a list of cash shipments to and from correspondent banks, such 4-month period.

Ms. LINVILLE. Right.

Chairman ST GERMAIN. What's that "G-5-AAAAA cumulative?"

Ms. LINVILLE. Twenty-five million dollars.

Chairman ST GERMAIN. All right. Correspondent banks where you have that written, does that include foreign banks?

Ms. LINVILLE. I can't answer that.

Chairman ST GERMAIN. Then we go to page 4. Copy of workpaper summary memo on results. First National/Boston involved in foreign transactions, affiliates in international banks. Is that right?

Ms. LINVILLE. Right.

Chairman ST GERMAIN. What does that mean?

Ms. LINVILLE. I had a conversation with either Mr. Stankey or Mr. Landreth and this is the information they gave me and I passed on to Roy Dunham when I discussed with him.

Chairman ST GERMAIN. Would you read this for me then because I'm—

Ms. LINVILLE. First National of Boston was the bank I was being told about, and they told me that they were involved in foreign transactions, affiliates in international banks. That's just clarification of where the foreign transactions were coming. They wanted procedures done.

Chairman ST GERMAIN. What does that mean, "wanted procedures done?"

Ms. LINVILLE. They wanted us to look at the cash shipments to and from and determine what they were for.

Chairman ST GERMAIN. What were they for?

Ms. LINVILLE. Who they were to. Reconcile those cash shipments. I believe the "WD" is probably withdraw. They withdrew \$925 million. They shipped to savings banks. Well, I can only read it, I can't interpret everything I wrote on here, OK?

Chairman ST GERMAIN. Some to?

Ms. LINVILLE. Some to international affiliates, CTR-4790 shows they are not filing a lot of them.

Chairman ST GERMAIN. That's the information Mr. Stankey gave saying that they just filed very few CTR 4790's; right?

Several banks?

Ms. LINVILLE. Several banks with surplus deposits.

Chairman ST GERMAIN. What does that mean?

Ms. LINVILLE. I'm not sure.

Chairman ST GERMAIN. Does Mr. Stankey know what that means?

Mr. STANKEY. I assume that that's the information that we developed from the Federal Reserve Boston Survey, which indicated that several banks had surplus deposits at the Federal Reserve. I'm not certain; they're not my notes.

Chairman ST GERMAIN. Well, let's just finish this and then we'll—



Mr. ROLLO. Excuse me, Mr. Chairman, I believe that that information that Ms. Linville is talking about came from the June investigation at the Federal Reserve bank, where Mr. Fong and myself assisted the Treasury Department in developing that information.

Chairman ST GERMAIN. Can you tell us about "surplus deposits." Mr. Wylie and I are wondering what that is.

Mr. ROLLO. I don't believe I know what the term "surplus deposits" means.

Mr. STANKEY. It's the term that we frequently use when we describe that a bank as depositing more money at the Federal Reserve than it's withdrawing. If I recall correctly, I don't know that that was a particular problem at the Federal Reserve Bank of Boston. But that's what the term usually means.

Mr. WYLIE. You say it's depositing more money at the Federal Reserve than it's withdrawing, but I don't understand that. If there's a lot more money coming in some place through deposits, from depositors? Is it possible that they're depositing it at the Federal—

Mr. STANKEY. Yes, well, the outstanding example is in Florida, where the the whole State has a surplus of currently about \$6.7 billion in currency, which apparently is due, at least in large part, to drug money flowing into Florida.

So that can happen in any area. It isn't very likely to happen in Massachusetts. Massachusetts does not, as a State, show a currency surplus.

Now it's possible that some of the banks in the State individually may have been depositing more money at the Federal Reserve than they were taking out of the Federal Reserve. In most States, the Federal Reserve adds to currency in circulation each year because there's an increasing demand for currency, and that's also true in Massachusetts.

Chairman ST GERMAIN. Getting back to this No. 4. You don't want to tell us who Duff Jordon is, do you?

Ms. LINVILLE. I don't know why his name is on there. I thought of calling that number to find out, but I didn't.

Chairman ST GERMAIN. Now this Hyatt Regency, Chicago, thing, were you at the Hyatt Regency at the time?

Ms. LINVILLE. No, I wasn't. I had attended a banking conference there sometime before this took place, and I took the tablet home with me. [Laughter.]

Chairman ST GERMAIN. You're one of those? [Laughter.] How many towels did you take?

Ms. LINVILLE. I swore to tell the truth. [Laughter.]

I was saving the office some money. [Laughter.]

Chairman ST GERMAIN. All right. What would the date of this phone conversation with Mr. Dunham be?

Ms. LINVILLE. I believe page 4 is my conversation with Treasury people, and then I had the entire conversation of 3 and 4 with Mr. Dunham later.

Chairman ST GERMAIN. OK, you communicated to him what the Treasury wanted.

Ms. LINVILLE. That's correct.

Chairman ST GERMAIN. What would the date of this conversation have been?

Ms. LINVILLE. I don't know the exact date but it was sometime between the September 12 memo we received and the October 8 memo we got back from the examiners.

Chairman ST GERMAIN. Sometime between that time.

Ms. LINVILLE. That's correct.

Chairman ST GERMAIN. This is where you outlined to Mr. Dunham—you told Mr. Dunham what Treasury wanted; right?

Ms. LINVILLE. That's correct.

Chairman ST GERMAIN. They wanted procedures done on foreign transactions and affiliates in international banks; right?

Ms. LINVILLE. Specifically, for First of Boston, they wanted us to reconcile the cash shipments that came from the Federal Reserve to First of Boston.

Chairman ST GERMAIN. What is "procedures"? What do they mean by "they wanted procedures done"?

Ms. LINVILLE. I can't tell you exactly what procedures we discussed.

Chairman ST GERMAIN. Do you recall, Mr. Stankey?

Mr. STANKEY. I don't think I discussed them directly with Ms. Linville, but what we ordinarily would want would be the examiners to explain this surplus, what happened to it. In other words, make a list of shipments to their correspondent banks domestically and also to get the information regarding these foreign shipments in terms of individual dollar amounts and, you know, specific information.

Chairman ST GERMAIN. It says, "WD-925 million?" Billion? Ms. Linville?

Ms. LINVILLE. Where is that?

Mr. STANKEY. It's millions, I'm sure.

Ms. LINVILLE. It matches this shipment here that's on our chart, \$926 million.

Chairman ST GERMAIN. "Lot transshipped to savings banks." What in God's name? "Some to international affiliates. CDR 4790 show they are not filing a lot."

Are these instructions or requests from Treasury that you then transmitted to Mr. Dunham?

Ms. LINVILLE. Yes, they are.

Chairman ST GERMAIN. Did you, Mr. Dunham, receive these requests from Ms. Linville?

Mr. DUNHAM. OK. Mr. Chairman, I'd like to say first off these are Ms. Linville's notes.

Chairman ST GERMAIN. Notes, right.

Mr. DUNHAM. I do not have my notes regarding these conversations. I have no reason to not believe anything here, but they do essentially represent Ms. Linville's understanding of the conversation, and I don't have a problem with that.

Chairman ST GERMAIN. Her understanding of the conversation with Treasury and then?

Mr. DUNHAM. Then with me.

Chairman ST GERMAIN. With you.

Mr. DUNHAM. Right. OK.

Chairman ST GERMAIN. Well, here's our problem. Here, it appears as though extensive work was asked for by Treasury at the First National Bank of Boston.

Ms. LINVILLE. Which we did.

Chairman ST GERMAIN. And——

Mr. DUNHAM. May I respond?

Chairman ST GERMAIN [continuing]. On the international and foreign transactions. Right?

Ms. LINVILLE. Not specifically. On all of the transactions, all cash shipments.

Chairman ST GERMAIN. Well, your notes say:

"First National of Boston involved in foreign transactions, affiliates and international banks, want procedures done."

Maybe I'm wrong, but it seems to me——

Mr. CONOVER. Mr. Chairman, if I may, we were told "please do the study," the results of which are represented on the chart.

Chairman ST GERMAIN. Let me ask Mr. Stankey, what is it you wanted done by the Comptroller's Office at the First National Bank of Boston?

Mr. STANKEY. I wanted a list of banks with dollar amounts showing shipments to and from the banks, what I would consider workpapers from an auditor, so that I could reconcile back to that figure. I didn't want generalities because we pretty much knew what the generalities were when we started.

Chairman ST GERMAIN. So what did you get? You got generalities?

Mr. STANKEY. Right.

Chairman ST GERMAIN. Ms. Linville, did you understand that Mr. Stankey was looking for specifics rather than generalities?

Ms. LINVILLE. I understood that what we sent them was sufficient, because we sent them this memo. I had subsequent conversations with him.

Chairman ST GERMAIN. Which memo? Are you talking now about?

Ms. LINVILLE. The examiner's October 8 memo.

Chairman ST GERMAIN. The one that got lost and went through the cracks.

Ms. LINVILLE. That's correct. And my understanding was that the information we submitted to them on this memo was all they wanted.

Chairman ST GERMAIN. What did you ask Mr. Dunham to have his examiners do?

Ms. LINVILLE. I'm sorry, I don't understand the question.

Chairman ST GERMAIN. Well, you spoke, you communicated to Mr. Dunham what you felt Treasury wanted?

Ms. LINVILLE. That's correct.

Chairman ST GERMAIN. OK. Did you say to him, "Mr. Dunham, they want all of these procedures and they want them in specifics" or, "just generalities?"

Ms. LINVILLE. I told him they wanted to know where the cash shipments went. They wanted that reconciled. In fact, they wanted to know whether we felt that any of those shipments were unusual.

Chairman ST GERMAIN. They wanted to know to which banks those cash shipments went?



Ms. LINVILLE. They never asked me which banks. They never were specific about the banks.

Chairman ST GERMAIN. Well, where they went. These did go to banks, that's why I used that term. They could have gone to MacDonald's, to Arby's or to the Wendy's. But they went to banks; right?

Ms. LINVILLE. That's correct.

Chairman ST GERMAIN. My point is, when you spoke to Mr. Dunham, what did you say? "They want to know where these shipments went?"

Ms. LINVILLE. No; I said exactly what it says here. "They want to know the list of cash shipments to and from the correspondents banks for a 4-month period. They wanted that reconciled."

Ms. LINVILLE. Which is what we did.

Chairman ST GERMAIN. Are the correspondent banks including foreign banks?

Ms. LINVILLE. Yes; it did.

[Pause.]

In the October 8 memo, the attachment lists where the currency shipments went to, which included international.

Chairman ST GERMAIN. Just international, but they didn't say where internationally.

Ms. LINVILLE. They never asked for the detail of exactly where those went.

Chairman ST GERMAIN. Mr. Stankey, we might as well load the record up here.

Mr. STANKEY. Yes; we routinely ask for detailed information because general information is really not that useful. There may have been some misunderstanding. Apparently, there was.

But, you know, we have operated with the comptroller and other bank regulatory agencies in Florida for many years, and every time we identified a bank that we needed additional information about, we got detailed descriptions of, you know, where the currency was coming from, where the currency was going in terms of individual banks, commercial customers, or what have you.

You cannot assess meaningful civil penalties on the basis of general schedules. You have got to have dates, names, and amounts.

Ms. WILSON. Mr. Chairman, if you will allow me, in the view of the Chief National Bank Examiner's office and myself specifically, during the period of time that I was there I felt that we had two very important issues to be addressed, and they required two very different responses.

The two problems that we had were laundering money from the underground economy, specifically money derived through drugs. Second, we had widespread noncompliance with the law, as shown by the quarterly reports that we submitted to Treasury.

Both of these problems were recognized, but the responses to them were quite different. The response to the laundering problem was Operation Greenback. It was a concerted, coordinated inter-agency effort, to which the OCC devoted substantial examining resources and assisted in supplying the U.S. attorney with qualified expert help.

Areas covered in this process were Florida, Texas, southern California, and Chicago. These were the primary areas that were men-



tioned during monthly meetings that we held with Treasury, IRS, the Customs Department, Justice, and the other bank regulatory agencies.

The result, as indicated in Mr. Conover's testimony, was over 1,300 indictments and over 460 convictions since 1980.

The second problem that we faced was widespread noncompliance with the law. We did recognize this, and the response was to develop procedures for the examiners to perform in coordination with other agencies and Treasury. They were implemented originally on all general examinations and on any bank where we felt that there was a problem or there were prior violations.

Additionally, we helped develop with the Fed and Treasury a targeting mechanism using cash shipments. That is something that they are currently referring to now.

In the *Boston* case, we participated with the Federal Reserve and Treasury in determining whether there was a discrepancy in cash shipments. They found that there was. It was \$925,000, and this is what we were asked to follow up on in the September 21 memo from Treasury.

Additionally, we also had an agreement with the IRS to follow up on the forms that were being filed incorrectly. There was a massive number of forms during this period of time that when they were received by the IRS were obviously not properly filled out and demonstrated a lack of knowledge on the part of the banking industry about the requirements of the law.

The area that we covered in doing this was nationwide. Massachusetts was only a part of this.

The followup was to Treasury through regular reporting mechanisms, which was primarily the quarterly report, although in the *Bank of Boston* case we did forward specific information because it was specifically requested in the September 21 memo.

OCC regularly requests corrective action from banks when we do find violations in these areas, and we have incorporated into our enforcement documents requirements for correction where we have been placing enforcement documents on banks.

The result of the work that we did in this area, again as shown by Mr. Conover's testimony, was that the annual number of CTR's has grown more than fivefold.

We started in 1980 with approximately 10,000 violations being shown through our national bank surveillance system and through the reports that were going to Treasury. In 1984, this was reduced to 3,000. The number of banks involved in these violations has gone from 800 banks to 444 banks.

We still do not consider this to be an acceptable level, but I think it does show that we were trying to work on the issue of compliance with the law and did indeed make progress over that period of time.

Chairman ST GERMAIN. Mr. Powis wrote—here is a letter from Karen Wilson to Mr. Powis.

Hello?

Ms. WILSON. I am sorry.

Chairman ST GERMAIN. There is a letter from you to Mr. Powis dated April 5, 1983?

Ms. WILSON. That is correct.

Chairman ST GERMAIN. That is exhibit 27 in my book.

Now, you tell Mr. Powis that you, "appreciate the information received about 31 CFR 103 compliance of Massachusetts national banks. Our Boston regional office reviewed the data, will expand compliance procedures. I would like to report on the status.

"The Shawmut Bank of Boston, North America, Boston, Massachusetts is scheduled for exam in June 1983. Our examiners will use 31 CFR 103 verification procedures during that examination."

Was that done?

Do you have your letter?

Ms. WILSON. Yes; I do.

Chairman ST GERMAIN. OK. On Shawmut, what you state about verification procedures in the exam during June 1983; was that done? Did you use verification procedures?

Ms. WILSON. My understanding from discussions I have had subsequently is that they were not done.

Chairman ST GERMAIN. Why not, or who made the decision not to do it?

Ms. WILSON. I cannot personally answer that question.

Chairman ST GERMAIN. Well, who was in charge of that office at that time—the regional office of Boston?

Ms. WILSON. Ralph Gridley would have been in charge as the regional administrator.

Chairman ST GERMAIN. Mr. Dunham was there as well? Mr. Dunham, can you enlighten us?

Mr. DUNHAM. Mr. Chairman, it is my understanding that Ms. Wilson's response to Mr. Powis was based upon conversations between Ms. Linville and myself as to the examination schedules and the desired examination procedures.

There is some confusion as to what was actually communicated between Ms. Linville and myself. Whether I understood verification procedures or examination procedures I am not clear on that point. However, I feel that whatever my understanding was of that conversation I would have relayed that to the examiners.

I am not laying this off on the examiners. The examiners, I believe, have indicated that they were not told to do verification procedures, and I really have no reason to disbelieve the examiners.

So either something was lost in the communications between Ms. Linville and myself or between myself and the examiners or either with the passage of time the examiners overlooked it or the priorities didn't allow them to do it.

I will point out, however, in Ms. Linville's notes—

Chairman ST GERMAIN. Wait just a second now.

Mr. Goldberg, would you stand, please, and raise your right hand?

[Witness sworn.]

Chairman ST GERMAIN. Would you approach the witness table, please?

Why don't you sit in Mr. Tracy's seat here for a few seconds because we have overworked him? [Laughter.]

You are Mr. Edward Goldberg, and you are an examiner with the Office of the Comptroller of the Currency as well?

Mr. GOLDBERG. Yes.

Chairman ST GERMAIN. What instructions, or what were you told to do with respect to the examination of Shawmut Bank in June 1983? Who gave you your instructions, your marching orders?

Mr. GOLDBERG. Well, it would have been the result of conversations with Mr. Gridley.

Chairman ST GERMAIN. With Mr. Gridley?

Mr. GOLDBERG. Right, and Mr. Dunham. We usually held meetings.

Chairman ST GERMAIN. Well, do you recall—you know, this is rather important—do you recall who gave you your instructions for that examination?

Mr. GOLDBERG. Well, the examination itself didn't take place till December. It was delayed.

Chairman ST GERMAIN. It was delayed.

Mr. GOLDBERG. Because of the scheduling priorities.

Chairman ST GERMAIN. Were you told to use 31 CFR 103 verification procedures during the examination?

Mr. GOLDBERG. No.

Chairman ST GERMAIN. No?

Mr. GOLDBERG. No.

Chairman ST GERMAIN. No one communicated that to you?

Mr. GOLDBERG. I don't believe so.

Chairman ST GERMAIN. Karen Wilson, how do we reconcile this?

Ms. WILSON. I don't—

Chairman ST GERMAIN. Excuse me.

Mr. Dunham, by the way, did you receive a carbon copy of this letter in April of 1983, or does this typed in "Roy Dunham, DRA for Planning Operations, Boston, Massachusetts"—did you only get that later on?

Mr. DUNHAM. Mr. Chairman, about 2 weeks ago in connection with the searching of files for information on this hearing, we discovered a copy of that memorandum in our files. It does not indicate who the copy went to, but it was received in the office April 8, 1983.

I have no recollection of ever seeing that memorandum. It is very obvious to me had I seen it or had the regional administrator seen it, clearly the thing that would have been done would have been, it would have been copied out to each examiner—

Chairman ST GERMAIN. You are sounding like the Bank of Boston here.

Mr. DUNHAM [continuing]. Responsible for the banks.

Chairman ST GERMAIN. You sound like the Bank of Boston here; right? Don't you feel the same way?

Mr. DUNHAM. I share some of the—

Chairman ST GERMAIN. Frustration?

Mr. DUNHAM [continuing]. The frustration, yes, sir.

Chairman ST GERMAIN. Karen Wilson?

Ms. WILSON. Yes, sir.

Chairman ST GERMAIN. How do we reconcile this now?

Ms. WILSON. My understanding is that we did have a failure in communication.

Chairman ST GERMAIN. As a matter of fact, the request from Treasury, that you told Mr. Powis was going to be complied with, on the Shawmut Bank on verification procedures didn't take place?



Ms. WILSON. That is correct.

Chairman ST GERMAIN. It was not complied with?

Ms. WILSON. That is my understanding.

Chairman ST GERMAIN [reading]:

Our office examined the Bank of New England. The examiners did not disclose any violations of 31 CFR 103. They considered the bank's coverage adequate. Some branches were not reporting large currency transactions. A more in-depth review was performed at those branches. However, the examiners did not discover any reportable transactions.

Now, the First National Bank of Boston, MA, was examined August 1982, using the expanded procedures.

Is this true? Did they use expanded procedures in August of 1982?

Mr. DUNHAM. I believe it is true, Mr. Chairman.

Chairman ST GERMAIN. Mr. Connors and Mr. Rollo, did you use expanded procedures?

Mr. ROLLO. Yes.

Mr. CONNERS. Yes, we did. The expanded procedures are the reconciliation of all the cash going out of or coming into the bank, cash transmissions we are talking about.

Chairman ST GERMAIN. Mr. Stankey, would you consider that those were expanded procedures?

Mr. STANKEY. If expanded procedures meant module 2—and that is what I thought it meant—it was not exactly what I thought it would be.

Chairman ST GERMAIN. What is expanded procedures? Is that module 2, Mr. Connors?

Mr. CONNERS. I guess it is whatever you want it to be. That is not a term that I am familiar with, and it is not a term we use every day.

Chairman ST GERMAIN. I never heard of a line officer before, so don't feel badly.

Mr. CONNERS. If you want to say we did more work than we would normally do, the answer is yes.

Chairman ST GERMAIN. How long were you in there?

Mr. CONNERS. In the bank?

Chairman ST GERMAIN. For this exam in August 1982.

Mr. CONNERS. We began the exam in early September, and we left shortly before Thanksgiving.

Chairman ST GERMAIN. But you spent 2 days examining—didn't you say that the time utilized for Bank Secrecy Act procedures was 2 days?

Mr. CONNERS. For that particular portion of the examination, yes. For the reconciliation of those accounts, yes, it was 2 days. We spent approximately another 2 days, Tom, or 3 days on reviewing the bank's procedures in the normal currency transaction reporting.

Chairman ST GERMAIN. Mr. Connors, did you know that the Angiulo family were reputed to be organized crime figures?

Mr. CONNERS. Yes, I did.

Chairman ST GERMAIN. Did you know that they had real estate holdings in the North End of Boston from the stories? Had you read any of those stories?



Mr. CONNERS. I had heard about the Angiulos. I knew they had an office. I guess I knew they had an office in the North End. It wasn't something that I thought about a lot, but, yes.

Chairman ST GERMAIN. Right.

Mr. Rollo, had you read anything about the Angiulos and their holdings in the North End?

Mr. ROLLO. I can't recall remembering reading about the Angiulos and their holdings in the North End, Mr. Chairman.

Chairman ST GERMAIN. But Huntington and Federal didn't ring a bell?

Mr. ROLLO. No, Mr. Chairman.

Chairman ST GERMAIN [reading]:

Worcester County National Bank exam is in process. The regional office instructed the examiners to perform 31 CFR 103 verification procedures.

Did that occur, Mr. Dunham? Do you know?

Mr. DUNHAM. No, sir, not that I understand it did.

Chairman ST GERMAIN. Ms. Karen Wilson, were you in fact aware, or, Ms. Linville, that that hadn't occurred?

[Pause.]

Ladies and gentlemen, I am going to recess for 5 minutes to run over and vote. Very frankly, Mr. Conover and people from the Bank of Boston, by staying this way we can allow you to go home to Boston tonight. I hope it is not snowing or sleeting, as it often does in New England.

I will be back promptly.

[Recess.]

Chairman ST GERMAIN. Now, where were we?

Shall we go through a few others and then summarize?

An examination of the Third National Bank of Hampden County, Springfield. Started March 4, 1983. Examiners will form verification procedures.

Was that done?

Ms. WILSON. My understanding is that none of the verification procedures were done that were mentioned in this memo.

Chairman ST GERMAIN. At the Hampden County Third National Bank?

Ms. WILSON. Right.

Chairman ST GERMAIN. Charlotte Bank, Bristol—this is a different Charlotte now; right?

Ms. WILSON. That's correct. That would be another subsidiary.

Chairman ST GERMAIN. In New Bedford, MA, is scheduled for examination May 1983. "The examiners will perform verification procedures"—

Mr. Dunham, did they perform verification procedures?

Mr. DUNHAM. I don't believe they did, Mr. Chairman.

Chairman ST GERMAIN [continuing]. "And will forward information about violations for any of the Massachusetts banks examined through our regular 31 CFR 103 quarterly report."

Do we have a copy of the violations that were cited? Do we have that?

Ms. WILSON. Mr. Chairman, that is the regular quarterly report that we send over the Treasury which is done on a negative basis. Something is only reported if a violation is found.

Chairman ST GERMAIN. Were there any violations reported? Were there any violations for any of those Massachusetts banks examined?

Ms. WILSON. I do not know but I believe Ms. Linville does.

Chairman ST GERMAIN. Ms. Linville?

Mr. DUNHAM. OK, Mr. Chairman——

Chairman ST GERMAIN. Oh, now, you're Mr. Dunham?

Mr. DUNHAM. Yes, sir.

Chairman ST GERMAIN. Right.

Mr. DUNHAM. I understand that at the Shawmut Worcester County examination, January 1983, verification was not done; however module 1 was done and expanded upon as considered necessary by the examiner and a violation of law was cited. They did go through reconciling shipments to see if there were problems and so forth.

Chairman ST GERMAIN. That was communicated to the Treasury? What type of violation was cited?

Mr. DUNHAM. The violation—I'm not quite sure what it was. Just a moment.

We'll have to provide that at a later date, sir.

Chairman ST GERMAIN. I think Mr. Stankey is trying to get to the microphone.

Mr. STANKEY. Yes; we've checked our quarterly reports—I forget for which period of time—but the period of time that would be covered by these examinations and we could find no reference to any violations.

Chairman ST GERMAIN. Mr. Dunham, Ms. Linville, and Ms. Wilson.

Ms. WILSON. Mr. Chairman, I understand that the violation that Mr. Dunham was referring to was definitely reflected in a quarterly report. I was just told that information.

Chairman ST GERMAIN. Well, I assume it will be submitted for the record.

Ms. WILSON. We can provide a copy.

[The following additional information was submitted for inclusion in the record:]

As stated during the testimony, a violation of 31 CFR 103.22 was disclosed in the examination report of January 1983. During this period of time, both the OCC District and Washington Offices' recordkeeping and reporting functions were being reorganized and transferred. Inadvertently, the violation was omitted during the compilation of the quarterly data and, therefore, was not reflected in the quarterly report. However, Treasury is now aware of the violation, and they will soon be provided with complete, updated information.

Chairman ST GERMAIN. Let's flip back now to Shawmut Bank of Boston, June 1983. That exam was performed when, Mr. Goldberg?

Mr. GOLDBERG. In December.

Chairman ST GERMAIN. How many violations did you find?

Mr. GOLDBERG. None relating to 31 CFR 103.

Chairman ST GERMAIN. None?

Mr. GOLDBERG. None.

Chairman ST GERMAIN. Is that the bank that said, we have violated?

Mr. GOLDBERG. That's correct.

Chairman ST GERMAIN. Well, we're going to discuss that a little more tomorrow with the people from Shawmut.

Did you perform a pretty good examination there, Mr. Goldberg?

Mr. GOLDBERG. Yes; although it could have been better in the Bank Secrecy Act area.

Mr. DUNHAM. Mr. Chairman, may I make a point, please, sir?

Chairman ST GERMAIN. What?

Mr. DUNHAM. With regard to specific instructions being provided the banks on verification procedures as indicated in this memo, while that was not done, the banks examined did have—did contain in the workpapers—a copy of the September 21, 1982, memorandum from Mr. Powis pointing out those banks as being of concern in areas where we should concentrate on 31 CFR.

Chairman ST GERMAIN. You mean that was provided to those banks that were—

Mr. DUNHAM. That was provided to the workpapers, to the examiner files, for those banks. Therefore, they would have that available.

Chairman ST GERMAIN. The examiners, you're saying, had the workpapers.

Mr. DUNHAM. Yes, sir. That's normal procedure for them.

Chairman ST GERMAIN. Did you happen to spot that, Mr. Goldberg?

Mr. GOLDBERG. I really don't remember seeing that.

Chairman ST GERMAIN. You don't remember seeing that?

Mr. GOLDBERG. I don't remember seeing it, no.

Chairman ST GERMAIN. You do not?

Mr. GOLDBERG. Well, I've seen it subsequently, yes.

Chairman ST GERMAIN. But at the time prior to examining Shawmut Bank?

Mr. GOLDBERG. No; I don't recall seeing it.

Chairman ST GERMAIN. You don't recall seeing it?

Mr. CONOVER. Mr. Chairman, if I may. The fact is that the expanded or verification procedures referred to in Ms. Wilson's memo of April 5, 1983, were not performed. There was a breakdown in communications and followup on the part of our office, which is why I cited at the outset in my testimony that we were not happy with our performance vis-a-vis the Massachusetts banks and that we were taking action to correct that deficiency. I think the conversation we've just had simply documents a weakness that we've already said exists and that we're committed to doing something about.

Chairman ST GERMAIN. Thank you.

Now, on page 4 you talk about the examination procedures—not all following every bank examination—and what happened was that those procedures were issued when—in 1982, weren't they?

Mr. CONOVER. The procedures were developed as an interagency effort and finalized in November 1981.

Chairman ST GERMAIN. November 1981?

Mr. CONOVER. That is correct.

Chairman ST GERMAIN. Mr. Conover and Mr. Rollo, you examined Bank of Boston in 1982; was that subsequent to these procedures being issued or prior to?

Mr. CONOVER. That would have been subsequent.



Chairman ST GERMAIN. Did you apply those procedures?

Mr. CONOVER. I don't believe so, not all of them. We used the new checklist, Mr. Chairman, I believe.

Chairman ST GERMAIN. I know. I saw the result of the checklist. It was terrific, all the check marks were in the lefthand column.

Mr. CONOVER. Mr. Chairman, I would hasten to add that the fact that the examiners did not use the updated procedures in their examination in 1982 should not be regarded as a weakness on their part. We regard that as an institutional failure on the part of the OCC. The examiners were not given appropriate instructions or followup.

Chairman ST GERMAIN. Thank you.

Now, on page 6 you talk about "it's up to the examiner in trying to determine how much of the exam procedures for bank secrecy will be employed in a given examination." Is that still going to apply in the future?

In other words you believe in discretion with the bank examiner in charge?

Mr. CONOVER. We're issuing some new procedures, Mr. Chairman. I think I've already indicated that we will use module 1 procedures in every comprehensive examination. However, we think it's important to leave some discretion to the examiner-in-charge, and that's being worked out.

Chairman ST GERMAIN. On page 7 you state, "The Treasury occasionally provides analyses that's very helpful pinpointing institutions with unusual currency problems."

Now, that was done in the case of the Bank of Boston; was it not?

Mr. CONOVER. That is correct.

Chairman ST GERMAIN. Hopefully the response in the future will be a little better than it was in the case of the Bank of Boston.

Mr. CONOVER. Yes, sir, that's correct, too.

Chairman ST GERMAIN. I don't know if you can answer this, Mr. Conover, but on page 8 you cite the 32 violations of the Bank Secrecy Act. Do you know how many have resulted in fines or penalties to the banks?

Mr. CONOVER. I don't have that information.

Chairman ST GERMAIN. Would that be available to you or would that be at Justice?

Mr. CONOVER. It would not be available from us because——

Chairman ST GERMAIN. When could we——

Mr. CONOVER. I believe Treasury would have it.

Chairman ST GERMAIN. Would Treasury have that, Mr. Stankey? The number of violations that have resulted in fines or penalties?

Mr. STANKEY. We probably could reconstruct it. We do have some information. I couldn't say how complete it is with respect to criminal cases because, frankly, we have difficulty getting information back on the results of the criminal cases.

Chairman ST GERMAIN. You mean from Justice?

Mr. STANKEY. Well, from Justice or whichever one of our agencies is involved.

Chairman ST GERMAIN. Don't feel badly, we've been getting that for years.

[Pause.]



Chairman ST GERMAIN. On page 13, you describe your desire, Mr. Conover, to improve coordination with Treasury on analyses of institutions showing anomolous currency movements. Is that an ongoing discussion at this point in time, Mr. Conover?

Mr. CONOVER. I think we have to sit down with Treasury, with Assistant Secretary Walker's office, and work out a better arrangement than has existed in the past. We need to reestablish how we're going to work together, what they're going to tell us, with what degree of specificity, when and how we're going to respond and the like. I'm just not satisfied from my knowledge of this situation that we don't need to begin at ground zero and ask, "How should this really be done?"

Chairman ST GERMAIN. That's two of us, Mr. Conover.

Mr. CONOVER. That's what I think we ought to do.

Chairman ST GERMAIN. Let's face it, this—Ms. Linville says she gave it to someone and the examiner sent it to Ms. Wilson and Ms. Linville handled it—much falling between the cracks there.

Mr. CONOVER. I couldn't agree more, and that's why I said—

Chairman ST GERMAIN. I'm hoping this will happen. You know, over the years, Mr. Conover—

Mr. CONOVER. That's why I said that we will submit a written report to the subcommittee saying precisely what we've done in terms of these steps so that you can be satisfied that we didn't just come up here and say we'd do six things and then forget about them.

Chairman ST GERMAIN. Because—what we've got to have here is more cooperation and not just to—well, present it to them and say it's not our responsibility any more.

Mr. CONOVER. I couldn't agree with you more.

Chairman ST GERMAIN. I'm going back to the CCC and all they had with respect to USMB back years and years ago—there was no communication.

I could go on for hours on that.

[Pause.]

Mr. CONOVER. If I might add something to that, Mr. Chairman. I referred, earlier to the agreement between the Attorney General and the Federal Reserve, the FDIC, the Federal Home Loan Bank Board, and the Comptroller's Office, that was signed yesterday dealing with basically the subjects that are included on page 14 of my testimony. I think we should extend that agreement to include a specific reference to bank secrecy matters and that we ought to get Treasury to sign it as well. Since the agreement has now been signed, I'd be happy to provide you with a copy of the agreement.

Chairman ST GERMAIN. Fine. Without objection it will be placed in the record at this point.

[Furnished for inclusion in the record is a memorandum from OCC Chief Counsel Richard V. Fitzgerald with an attached Department of Justice press release and the referred-to agreement "Agreements and Recommendations of the Attorney General's Bank Fraud Working group," dated April 2, 1985:]



## BANKING ISSUANCE

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Comptroller of the Currency  
Administrator of National Banks

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Type: Banking Bulletin

Subject: Criminal Violations

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TO: Chief Executive Officers of All National Banks, Department  
and Division Heads and All Examining Personnel

Attached for your information are copies of a Department of Justice Press Release and an agreement signed April 2, 1985, by representatives of the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, the Federal Home Loan Bank Board, and Department of Justice. This agreement is the culmination of meetings held by an interagency working group formed to find better ways to deal with bank fraud concerns.

The agreement crystallizes efforts to develop lines of communication between the agencies and establish standardized approaches to reporting and tracking suspected criminal activities.

Regulators rely on the Department of Justice to enforce criminal laws in banks, and are required to refer every suspected criminal violation to that Department. An important part of the agreement is its segregation of de minimis from significant cases. De minimis cases will be entered on a tracking system so that repeat offenders may be identified but, unless such a pattern is found, will require no further action. This will allow a more efficient use of scarce manpower resources and ensure more careful handling of cases the regulators would like to see produce action.

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Date: April 2, 1985

Page 1 of 2



## BANKING ISSUANCE

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Comptroller of the Currency  
Administrator of National Banks

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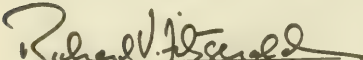
Type: Banking Bulletin

Subject: Criminal Violations

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The Office of the Comptroller of the Currency strongly supports this first step and further actions by the working group in areas of joint concern. We believe that a combined effort of regulators, financial institutions, and the Department of Justice can result in swift and speedy justice in fraud matters.

The Office of the Comptroller of the Currency welcomes any suggestions from banks for ways to improve the system.

  
Richard V. Fitzgerald  
Chief Counsel

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Date: April 2, 1985

Page 2 of 2



## Department of Justice

FOR IMMEDIATE RELEASE  
TUESDAY, APRIL 2, 1985

CRM  
(202) 633-2010

Attorney General Edwin Meese III today announced the signing of an agreement between the Department of Justice, the Federal Bureau of Investigation and the four federal banking regulatory agencies designed to improve the detection, investigation, and prosecution of bank fraud cases, particularly those involving criminal misconduct on the part of bank officers.

Signers of the agreement were:

- o Attorney General Meese;
- o William H. Webster, Director of the FBI;
- o C. T. Conover, Comptroller of the Currency;
- o Edwin J. Gray, Chairman, Federal Home Loan Bank Board (FHLBB);
- o Preston Martin, Vice-Chairman of the Federal Reserve Board, and
- o Margaret L. Egginton, Deputy to the Chairman of the Federal Deposit Insurance Corporation (FDIC).

"The health of the nation's banking industry is essential to the health of the nation's economy," Meese said.

"Bank fraud perpetrated by insiders, even directed toward relatively small banks, seriously undermines the confidence and trust that individuals and businesses place in the banking industry as a whole," he said.



"That confidence and trust will diminish all the more if the public fails to perceive a comprehensive and active law enforcement presence in the industry. And interagency cooperation is vital to that lawful presence."

In 1984, the Attorney General said, there were 79 bank failures and 27 failures of savings and loans, an unprecedented number since the beginning of federal controls in the 1930's. In 1983, there were 48 bank failures and 46 failures of savings and loans.

The Justice Department survey of 75 FDIC-insured banks that failed from January 1, 1980, to June 17, 1983, found that 61 percent of such failures involved actual or probable criminal misconduct by bank insiders.

"By its own estimate, the FDIC has told Congress that criminal misconduct by insiders was a major contributing factor in 45 percent of the same 75 bank failures," Meese said.

Then-Attorney General William French Smith invited heads of the concerned agencies last year to meet and recommend improvements in the federal bank fraud enforcement effort. Such a meeting had been recommended by the Economic Crime Council, which had made bank fraud prosecutions one of its highest priorities.

Beginning December 19, 1984, a working group representing the agency heads met nine times and addressed such issues as:

- Procedure and content of criminal referrals;
- Special handling of highly significant cases;
- Bank fraud training for examiners, agents and prosecutors;

- Information sharing and a joint strategy in dealing with the Right to Financial Privacy Act, which tends to restrict the interagency flow of information;
- Case tracking mechanisms, and
- Development of more effective interagency cooperation.

As a result of these meetings, the working group drafted the document signed today, which contains more than 20 points of agreement. These points embody proposals designed to overhaul and improve the federal law enforcement response to bank fraud cases.

A principal objective of the working group has been to design uniform referral procedures both for routine and significant cases, the Attorney General said.

One feature has been the preparation of a standard referral form, to be used by all four agencies, designed to elicit the type of information deemed most important to the FBI and the Department of Justice in assessing the prosecutive merit of the suspected violations. It comes in both a long- and short-form version and places greater emphasis on major cases, particularly ones involving criminal misconduct by bank officers.

The agreement emphasizes that in significant cases the written referral should be supplemented by oral presentations and follow-up, all of which helps the bank regulatory agency to communicate with the U. S. Attorney and furnish assistance when needed.

The agreement also establishes mechanisms for ensuring that interagency liaison and communication is effective at the regional and district levels and among the Working Group members in Washington.

Each of the agencies participating in the working group currently operates under legal or procedural restrictions that limit or impede access to one another's records. Some are statutory, such as the Right to Financial Privacy Act and the rule of grand jury secrecy as provided in Rule 6 of the Federal Rules of Criminal Procedure. With respect to these restrictions, the working group is supporting legislative amendments exempting certain interagency communications.

The agreement provides as well that the Fraud Section of the Justice Department's Criminal Division will modify its existing computerized Fraud and Corruption Tracking System (FACT) to include bank fraud cases of particular significance to the Working Group.

Meese said this should help the working group agencies to measure the prosecutive response nationwide and to recommend assistance in those areas of the country where prosecutions are failing to keep up with apparent violations. The agreement also provides for interagency use, in appropriate circumstances, of the FBI's computerized indices known as the Field Office Information Management Systems (FOIMS).

The agreement also recognizes the need for increased, as well as coordinated, training for prosecutors, FBI agents and bank examiners. For example, the FBI has agreed to make space

available to bank examiners in its "Bank Failure-In-Service" course presented at the FBI Academy in Quantico, Virginia, and the Department will add a bank fraud institute to its Advocacy Institute Program.

Meese said the working group has had productive results and will continue its periodic meetings, not only to monitor and implement the points of agreement, but also to monitor constantly the entire bank fraud area.

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**Agreements And Recommendations  
of the  
Attorney General's Bank Fraud Working Group**

**Edwin Meese III  
Attorney General**

**April 2, 1985**

Agreements and Recommendations  
of  
The Department of Justice

This document embodies the areas of agreement and recommendations of the Working Group created in December, 1984, to address problems and promote cooperation toward the goal of improving the federal government's response to white-collar crime in the nation's federally-regulated financial institutions. The Working Group is composed of senior officials of the U.S. Department of Justice Criminal Division, the Federal Bureau of Investigation, the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board. The four named regulators of financial institutions are referred to herein as the "Supervisory Agencies."

After an initial meeting between the Attorney General and other Justice Department officials and the heads of the Supervisory Agencies, an agenda was established and the Working Group was formed to address the matters contained herein. This document represents the results of concerted effort by the Working Group to tackle and resolve issues of major significance relating to the detection, reporting and prosecution of bank-related crimes.

The Working Group has focused particularly on white-collar crimes by "insiders" of financial institutions, which have plagued a large number of institutions with resulting large losses to the FDIC and FSLIC insurance funds. In response, the Working Group has improved the entire referral system for suspected bank fraud and abuse, developed avenues for better communications, coordination, and tracking, established new training opportunities, and determined to support certain legislative proposals as set out herein. With improved cooperation overall, the Supervisory Agencies and the Justice Department will be better equipped to respond more effectively to criminal conduct involving the nation's financial institutions. Following this document is a separate summary that elaborates upon certain of the agreements and recommendations contained herein.

#### The Criminal Referral Process

1. The Working Group recognizes the pivotal role of the referral process in ensuring an effective law enforcement response to crimes involving financial institutions. As envisioned by the Group and set out herein, the referral process is more than simple notification; it is a procedure for notification and continuing interest and coordination in which the Justice Department enlists the help of the Supervisory Agencies to detect and understand suspected crimes, and the Supervisory Agencies regard effective criminal law enforcement as one arm of their own enforcement efforts. This process will be sustained by regular personal

contact between the parties hereto at both the national and local levels, and by a sustained interest in and attention to each other's needs.

2. The Working Group endorses the use of a uniform method for reporting suspected criminal conduct to the U.S. Department of Justice (hereafter "Justice Department" with the understanding that, unless specified otherwise, the term refers to the Department's Headquarters in Washington, D.C., the applicable U.S. Attorneys and the FBI - both Headquarters and District offices.) The Working Group has developed a uniform referral form for this purpose to be used by the Supervisory Agencies and by their regulated financial institutions. The purpose of the referral form is to promote the transfer of complete and accurate information on key points deemed most important by the Justice Department for its assessment and evaluation of possible criminal cases. In connection with the referral form, the following matters also have been agreed upon:

a. The proposed referral form has been designed so that possible crimes involving losses of less than \$10,000 and not involving "insiders" may be reported on a "short-form" portion of the referral form so that the numerous cases of teller defalcations involving small amounts of loss can be reported with minimal burden to the preparer.

b. The proposed referral form will be adapted to each Supervisory Agency's particular procedures, and the Agencies will strive to assure uniformity in the form and its instructions in all substantial respects.



c. The Working Group members will work together in an effort to obtain OMB and other required clearances for the referral form's use.

d. The Supervisory Agencies will strive to implement a regulation or other formal policy that requires their regulated financial institutions to make criminal referrals in all cases directly to the appropriate criminal authorities, with copies to their principal Supervisory Agency.

e. The Working Group will be responsible for monitoring each Agency's completion and adoption of the referral form, the referral regulation or policy statement, necessary approvals, and implementation of the form's use, with the goal of having the referral form in use by each of the Supervisory Agencies as soon as practicable.

3. The Supervisory Agencies will establish procedures to review the criminal referrals made by their regulatees and will make referrals directly where (a) the referral made by the financial institution is deemed inadequate, or (b) the suspected criminal conduct discovered by the Supervisory Agencies has not been reported by the regulatee(s).

4. The existence of the referral form shall not prevent a Supervisory Agency from making a more detailed written referral, and shall not prevent referrals by telephone or personal contact in situations where immediate contact of the Justice Department is advisable.

5. When referrals are made by the Supervisory Agencies, they shall be made at an early stage, that is, when the Agencies' representatives first obtain evidence to support a belief

that a crime has been or may have been committed, with allowances for reasonable periods of time for review of the proposed referral under each Agency's established procedures. The referral of suspected criminal conduct shall in no way restrict the Supervisory Agencies from continuing their own examinations or investigations into the same conduct in order to carry out their regulatory responsibilities, unless they are requested to cease or suspend such activity by Justice Department representatives in connection with an ongoing criminal investigation or prosecution.

6. Following the dispatch of a criminal referral by a Supervisory Agency, that Agency shall segregate the documents and information relative to the referral or establish procedures to ensure that such documents and information are readily retrievable if the Agency is requested to produce them by the Justice Department.

7. Copies of the following types of referrals shall be forwarded to the Fraud Section of the Justice Department's Criminal Division and to the FBI Headquarters in Washington, D.C. by the Supervisory Agencies: referrals involving losses above an agreed upon amount, referrals disclosing possible crimes of particular significance to the Agencies (including criminal misconduct by "insiders" of financial institutions) or that otherwise are of national impact, and referrals that involve significant criminal conduct in more than one jurisdiction.

8. In connection with significant cases as described in the preceding paragraph, the Supervisory Agencies are encouraged to seek the active assistance of the Fraud Section. Such assistance

should be sought, to the extent practical, at the time of or, in appropriate cases, in advance of the Agencies' referrals to the U.S. Attorneys. The Fraud Section and FBI Headquarters will assist the U.S. Attorneys in their evaluation, investigation, and/or prosecution of such significant cases, and where appropriate, will coordinate multi-jurisdictional cases. In appropriate cases, the Fraud Section also will supply prosecutorial staffing.

9. The Supervisory Agencies will strive to communicate directly with the U.S. Attorneys' offices about significant criminal referrals involving their regulated financial institutions. It is understood that oral and written communications follow-up, and coordination are encouraged between the local offices of the Supervisory Agencies and the U.S. Attorneys' and local FBI offices. These parties shall communicate their concerns about particular cases and engage in dialogue to resolve problems. Thereafter, the Justice Department Fraud Section will entertain inquiries, complaints, and "appeals" of declinations by U.S. Attorneys with respect to referrals made by the Supervisory Agencies or their regulated financial institutions on cases believed by the Agencies to be significant.

Coordination, Cooperation and Information-Sharing Between the Working Group Representatives

10. Each of the Working Group members has exchanged information that identifies appropriate points of contact (by name, address and telephone number) for making criminal referrals, for seeking assistance with investigations, and for resolving any problems with coordination. The Justice Department also has identified

individuals in U.S. Attorneys' offices and FBI field offices who are experienced in financial institutions crimes. All Working Group members are responsible for keeping the "contact lists" updated on a reasonably current basis.

11. The Working Group members will actively encourage periodic meetings between representatives of their regional or district offices. For example, the regional management of the Supervisory Agencies are encouraged to get acquainted and maintain contact with the U.S. Attorneys and FBI managers for their region, and to explore whether there are any problems in communications or coordination that can be resolved at that level.

12. The Supervisory Agencies will review current regulations, delegations, and procedures to determine if changes are required to assure expeditious responses to requests by the Justice Department for written materials or for direct assistance by representatives of the Supervisory Agencies. If needed, appropriate changes will be made to such regulations, delegations and procedures.

13. The Working Group members will cooperate fully in the sharing of relevant information, subject only to applicable legal restrictions, and will assist one another in assuring that information so shared may be used by the recipient(s) in appropriate criminal, civil or administrative proceedings.

14. The Justice Department will implement procedures to improve its reporting of information to the Supervisory Agencies. In particular, it is agreed:



a. The disposition of criminal referrals sent to the Justice Department pursuant to paragraph 6 above, shall be reported by the Justice Department to the appropriate Supervisory Agency that forwarded the referral. In addition, U.S. Attorneys will be instructed to notify the referring Supervisory Agency of the disposition of referrals made by such Agency.

b. The Justice Department will instruct the U.S. Attorneys to notify the appropriate Supervisory Agency when indictments and convictions are returned against "insiders" or employees of financial institutions, particularly when such individuals continue to be affiliated with the financial institutions at the time of the indictments or convictions.

c. Information obtained by the Justice Department during criminal investigations will be shared with the appropriate Supervisory Agencies where such information may assist the Agencies in carrying out their regulatory responsibilities, subject only to applicable legal restrictions or where confidentiality is essential to maintain the integrity of a criminal investigation.

15. In order to assist the Justice Department in its execution of the information-sharing described in the preceding paragraph, the Working Group supports an amendment to Rule 6(e) (Fed. R. Crim. P. 6(e)), which would permit the Justice Department to petition the appropriate Court for permission to make available to the appropriate Supervisory Agency(ies) information obtained pursuant to the Grand Jury process that would assist the Agencies in carrying out their regulatory responsibilities.

**Tracking of Criminal Referrals and Investigations and Information Systems**

16. The Justice Department Fraud Section will develop a tracking system to monitor significant criminal referrals and investigations involving federally regulated financial institutions:

a. This tracking system will be initiated by inputting those referrals of which copies have been sent directly to the Fraud Section pursuant to Paragraph 7 above.

b. Information from the Fraud Section's tracking system will be shared with the Supervisory Agencies, subject only to applicable legal restrictions.

17. The FBI will input all of the Supervisory Agencies' and regulated financial institutions' criminal referrals on its FOIMS computer system. Consistent with applicable legal restrictions and the need to maintain confidentiality concerning certain ongoing criminal investigations, the FBI will share information from the FOIMS system with the Supervisory Agencies.

18. Pursuant to previous agreements between the Supervisory Agencies, criminal referrals and other information about individuals are being shared by and among the Supervisory Agencies. The Agencies have agreed to coordinate this process in connection with their respective processes of computerization of information and to make such information available to one another and to Justice Department representatives upon request, subject only to applicable legal restrictions.

Training

19. The Working Group agrees to coordinate and share training courses and other training resources in the area of white-collar crimes involving financial institutions. In particular:

a. The FBI has agreed to make at least 30 slots available for training examiners or other employees of the Supervisory Agencies in a special "Bank Failure In-Service" course, which will be presented in Quantico, Virginia, during July 1985. The FBI also will present regional training programs in which the Supervisory Agencies will participate in 1986. All such training by the FBI will focus on investigative techniques and problems in cases involving financial institutions.

b. The Supervisory Agencies will explore with the Federal Financial Institutions Examination Council ("FFIEC") whether it will assume responsibility for presenting a white collar crime course in a form similar to that currently presented by the Office of the Comptroller of the Currency ("OCC"). The Working Group members will encourage the FFIEC to present such a training course, which will be available to representatives of the Supervisory Agencies and the Justice Department.

c. While the FFIEC is considering the establishment of the white collar crime course, and/or in the event that such a course is not established by the FFIEC, the OCC will continue to make slots available to the other Supervisory Agencies and the Justice Department in its "White Collar Crime Seminar" given periodically during each year.

d. The Justice Department will develop a training course (or a segment of a course) for Assistant U.S. Attorneys that focuses on the investigation and prosecution of white collar crime involving federally-regulated financial institutions, and will strive to make slots available to the Supervisory Agencies for appropriate representatives to attend.

The Right to Financial Privacy Act

20. The Working Group has agreed to support a clarifying legislative amendment to the Right to Financial Privacy Act of 1978 ("RFPA") (12 U.S.C. § 3401 et seq.) relative to transferring information to law enforcement authorities. The amendment endorsed by the Working Group is one that would permit the transfer of financial information lawfully in the possession of one government authority (such as a Supervisory Agency) to another government authority (such as the Justice Department) for a law enforcement purpose within the jurisdiction of the receiving authority, without notice to the customer.

21. The Justice Department has found that the RFPA notices to customers can be damaging to the conduct of criminal investigations. Therefore, until a clarifying amendment is enacted the Supervisory Agencies will implement procedures to ensure that criminal referrals are made in a manner that does not require notices to customers. Accordingly, it is anticipated that, in some instances, referrals may omit the names of significant suspects or



witnesses and/or copies of supporting documentation from protected customers' records. In such cases the Justice Department will utilize Grand Jury subpoenas to compel production of the omitted information from the Supervisory Agencies or directly from their regulated financial institutions.

22. The Working Group will, by written request to the Justice Department, seek a clarification of the May 22, 1979, opinion to Deputy Attorney General Civiletti from the Office of Legal Counsel relative to criminal referrals by the Supervisory Agencies and the requirements of the RFPA concerning customer notices in connection with such referrals.

#### The Bank Bribery Act

23. The Working Group has addressed numerous questions and concerns relating to the Bank Bribery Act. Pub. L. No. 98-473, § 1107, 98 Stat. 2145 (1984), 18 U.S.C. § 215. In particular, the Group is exploring the possibility of clarifying the scope of the Act by regulations or policy statements issued by the Supervisory Agencies and/or by written guidance from the Justice Department. These matters will continue to be pursued by the Working Group.

#### Continuation of the Working Group

24. The Working Group unanimously agrees that the communications and cooperation initiated by the Group have been positive and productive. Accordingly, the Working Group will continue to meet on a regular basis to discuss implementation of and any problems related to the matters set out herein and to share

information about specific criminal cases and other matters that may be of interest to all members of the Working Group.

Dated: 2 April 1985

U.S. Department of Justice

Federal Bureau of Investigation

By: Edwin Meese III

By: William A. White

Board of Governors of the  
Federal Reserve System

Office of the Comptroller of  
the Currency

By: Robert M. Martin

By: C. Todd Conover

Federal Deposit Insurance  
Corporation

Federal Home Loan Bank Board

By: Margaret L. Egginton

By: [Signature]

SUMMARY OF THE RATIONALE  
FOR CERTAIN OF THE MATTERS SET FORTH IN  
THE ATTACHED AGREEMENTS AND  
RECOMMENDATIONS OF THE JUSTICE DEPARTMENT-  
SUPERVISORY AGENCIES WORKING GROUP

Each of the numbered paragraphs in the attached "Agreements and Recommendations of the Justice Department-Supervisory Agencies Working Group" represents the results of lengthy discussion and consideration by the Group. This summary does not attempt to discuss all of the reasons for the many agreements and understandings that have been reached, but only to expand upon the rationale for certain of the more significant provisions.

The Criminal Referral Process

Paragraphs 1 through 6 of the Working Group Agreements set forth procedures for the use of a uniform criminal referral form by all of the Supervisory Agencies and by the financial institutions regulated by them. The proposed form itself is the product of considerable effort by the Working Group and is designed to relay the type of information deemed most important by the Justice Department for its assessment and investigation of matters referred by the Supervisory Agencies and their regulated financial institutions. The form and its detailed instructions will assure that such referrals are an effective means of notifying criminal law enforcement authorities of suspected offenses. In particular, a referral made by use of the form will identify the suspected criminal violation both in summary and in detailed form by instructing the preparer to give a chronological and complete

account of the suspected violations by relating key events and identifying significant documents and potential witnesses.

While the proposed referral form requests considerably more information than often has been provided in the past by the Supervisory Agencies and their regulated financial institutions, it is not intended to delay the referral process while all answers to the questions are gathered. (See Paragraph 5.) In fact, if certain information is not readily available to the preparer, he/she will be instructed to complete the known information and not delay the transmittal of the form. Moreover, the Working Group has designed a referral form that has a "short form" version for referrals that disclose suspected losses under \$10,000 that do not involve "insiders". In terms of the volume of referrals received at this time by the Justice Department, such "smaller" crimes represent the overwhelming majority of cases reported. The "long form" version of the referral form will be utilized for all other criminal referrals by the Supervisory Agencies and their regulated financial institutions. (Paragraph 2(a).)

It is recognized that the actual approval of the form by each of the Supervisory Agencies and clearance for its use by OMB will take some time. The Working Group has agreed to cooperate fully in achieving use of the form in a substantially identical format. (Paragraph 2(b), (c), and (e).) Also key to the new referral process will be the implementation of regulations or other formal requirements by each of the Supervisory Agencies that require referrals to be made directly by their regulated



financial institutions (Paragraph 2(d)). Only if the referrals made by the financial institutions are inadequate or if a referral has not been made by an institution, will the Supervisory Agencies make the referral directly (Paragraph 3), its being understood that the Supervisory Agencies will promptly undertake to make referrals themselves in both circumstances, and will not rely on the institutions to do so unless the Agencies are assured that the institutions have made the referrals in a satisfactory manner. This procedure was adopted in the interest of administrative economy by the Supervisory Agencies, who believe that their limited resources will better be spent preparing the limited number of referrals on such matters as serious abuse by "insiders" of financial institutions, which referrals are unlikely to be made by the institutions themselves.

The Working Group stresses that the existence of the referral form is not intended to prevent referrals by telephone or personal contact in emergency cases or any situation where the Agency believes that evidence or witnesses could disappear if there are delays in making the referral. (Paragraph 4.) Similarly, the form is not intended to deter the preparation of more detailed referrals as deemed appropriate by the Supervisory Agencies. (Paragraph 4.)

The Working Group considered whether to identify an evidentiary standard for when criminal referrals are to be made, such as when "substantial evidence" of a crime has been discovered, but determined not to do so. Often the preparers of criminal referrals are not in a position to make such determinations,

particularly when the suspected crime requires evidence of "willfulness" or an "intent to defraud." These are decisions to be made by Justice Department representatives, who prefer to be advised of the potential crime early when it is first suspected by the Supervisory Agencies so that Justice may develop the facts toward evaluation of a criminal prosecution. Accordingly, Paragraph 5 of the Working Group's Agreements provides that referrals of suspected criminal violations shall be made at an early stage when the Supervisory Agencies first obtain evidence to support a belief that a crime has been or may have been committed.

Of particular note is the role that the Fraud Section of the Justice Department's Criminal Division has agreed to assume in the criminal referral process. (Paragraphs 7 through 9.) The Fraud Section will assist in the Department's consideration and coordination of significant referrals (Paragraph 8), and will entertain inquiries, complaints, and "appeals" by the Supervisory Agencies concerning referrals made to U.S. Attorneys' offices (Paragraph 9).

#### Coordination, Cooperation and Information-Sharing

Paragraphs 10 through 15 detail areas in which the Working Group has established points of contact (Paragraph 10), encouraged communications at the regional level (Paragraph 11), and agreed to improve their responsiveness to requests for information from one another (Paragraphs 12-15.) Each of the Working Group members currently has legal or procedural restrictions that limit or impede access to one another's records.

Certain of these restrictions are statutory, such as the Right to Financial Privacy Act and Grand Jury Rule 6(e), in response to which the Working Group are supporting legislative amendments. (See Paragraphs 15 and 20.) The Working Group members will assure that any other impediments are only those actually required by law or regulation or necessary to preserve the integrity of information or investigations.

The proposed amendment to Rule 6(e) set out in Paragraph 15 would allow Justice Department representatives to petition the appropriate Court to permit the sharing of information obtained pursuant to the Grand Jury process, with the Supervisory Agencies. Often the receipt of grand jury information could facilitate the Supervisory Agencies' taking administrative or judicial action to prevent harm to financial institutions under their supervision, and/or to prevent or reduce losses to the FDIC or FSLIC insurance funds. This is particularly significant because the Justice Department may be unable to use grand jury information because it does not meet the higher standards required for criminal prosecutions or because the demands of more serious criminal cases postpone action on crimes involving financial institutions. The same information however, could be significant to a Supervisory Agency either to support civil action or to initiate its own examination or investigation of the matter.

#### Tracking and Information Systems Regarding Criminal Referrals and Investigations

Paragraphs 16 through 18 recite the agreements reached relative to tracking and information systems maintained about the

individuals named in criminal referrals. As a result of the agreements reached in this area, all of the Working Group members will have access to valuable information in connection with carrying out their respective responsibilities. For example, the Justice Department now may be able to determine if a suspect referred by one Supervisory Agency also has been referred for a similar crime by another Supervisory Agency in another jurisdiction. (Paragraphs 16-17.) Moreover, a Supervisory Agency may be able to access material information from the Justice Department about individuals filing change in control applications with the Agency. (Paragraphs 14(c), 16 and 17.)

#### Training

The Working Group has agreed to coordinate and share training courses and other training resources in the area of white collar crimes involving financial institutions. In particular, the FBI already has agreed to present special training for examiners from the Supervisory Agencies, and other courses to be made available to the Working Group members are identified in Paragraphs 19(a) through (d).

#### The Right to Financial Privacy Act

The restrictions of the Right to Financial Privacy Act ("RFPA") have impeded the criminal referral process in a significant manner over the last several years. The Working Group members are unanimous in their belief that a clarifying amendment with respect to the customer notification requirements of the RFPA should be enacted for the transfer of information to the



Justice Department for its use in conducting a criminal investigation or prosecution. (Paragraph 20.) The current customer notice provisions of the RFPA are ill-advised in two major respects. When customers who are "victims" or who are otherwise uninvolved in the suspected criminal conduct, receive notice under the RFPA upon transfer of their financial records to the Justice Department, it causes unnecessary confusion and concern. However, when the suspected perpetrator of the crime receives such a notice, the Justice Department is concerned that he may take action to destroy evidence or otherwise to cover-up his wrongful conduct.

Because of these problems, the Working Group's Agreements provide that the Supervisory Agencies will implement procedures to ensure that criminal referrals are made in a manner that does not require notice to customers. (Paragraph 21.) This will sometimes result in referrals that omit the names of customers or copies of customer records of "protected" customers when the referrals are made, and which will require the issuance of Grand Jury subpoenas to obtain the omitted information without customer notice. However, the Working Group has agreed to operate under this procedure until and unless a corrective amendment to the RFPA is enacted. This does not mean that referrals will be abbreviated by not explaining fully the suspected crime; rather, the referral will omit identifying the protected customer or financial records only, and will otherwise report all of the pertinent facts requested on the referral form.

Equally important is the fact that the Working Group members have agreed to support a clarifying amendment to the RFPA that would provide an exception to the customer notice requirements for any transfers of information lawfully in the possession of one government authority (i.e., a Supervisory Agency) to another government authority (i.e., the Justice Department) for a law enforcement purpose. (Paragraph 20.)

#### The Bank Bribery Act

Paragraph 23 points out that the Working Group has addressed and will continue to pursue issues related to the new Bank Bribery Act at 18 U.S.C. § 215.

#### Continuation of the Working Group

Finally, the Working Group has agreed to continue its existence in order to complete the implementation of the matters agreed upon and to serve as a continuing ad hoc committee to discuss problems and to resolve matters of common interest and responsibility. (Paragraph 24.)

Chairman ST GERMAIN. Now, in the appendix on page 8, Mr. Stankey, paragraph 24, Mr. Conover's statement says, "On December 8, 1982, Deputy Assistant Powis sent another memo to OCC looking for more information about the eight other national banks covered in his September 21 memo."

Mr. Stankey, did you assist Mr. Powis in preparation of that memorandum?

Mr. STANKEY. I at least reviewed it, yes.

Chairman ST GERMAIN. Tell me, was the intent of that memorandum to seek more information on only the eight other banks, or did it include the Bank of Boston for which other information was already—

Mr. STANKEY. It was my understanding that it would include all of the banks.

Chairman ST GERMAIN. Fine.

Now, Mr. Conover, on appendix page 12, paragraph 37, in case you're under the impression of new disclosures by the Bank of Boston at their annual meeting, only involves Edge Act subsidiary problems. However, the information we've received from the bank states that their violations include a subsidiary national bank in Maine, the Casco Northern Bank, in various transactions involving the foreign tellers of First National Bank of Boston and several transactions at various separate current branches of the bank.

Have you now been given this information?

Mr. CONOVER. I wasn't aware about violations involving the bank in Maine until earlier today. Remember that since we have been prevented from doing anything about Bank Secrecy Act violations in the Bank of Boston since April 1983, we wouldn't have been able to do anything about it anyway.

Chairman ST GERMAIN. Does that include their affiliates as well, that request not to do anything?

Mr. CONOVER. We've interpreted it to mean that.

Chairman ST GERMAIN. When did you acquire the Casco, Mr. Brown?

Mr. BROWN. Just about a year ago.

Chairman ST GERMAIN. About a year ago. So that's subsequent to—

Mr. BROWN. The filing period covered from 1980, though.

Chairman ST GERMAIN. But you didn't take possession of it actually—

Mr. BROWN. A year ago.

Chairman ST GERMAIN. Until a year ago.

Mr. BROWN. Yes, sir.

Chairman ST GERMAIN. Therefore, it seems to me, Mr. Conover, that perhaps there was a misinterpretation as far as not being able to look at Bank Secrecy problems in the Casco.

Mr. CONOVER. That may be. I didn't learn anything about that bank until earlier today.

Ms. WILSON. Mr. Chairman, Mr. Goldberg has informed me that that was a State bank prior to its acquisition and was not subject to our jurisdiction. Additionally, the office has requested a clarification from Treasury as to whether or not, when they say that we can't go into a particular bank they mean the entire bank, banking organization, or they mean the specific bank subsidiary or they refer to a particular branch.

Chairman ST GERMAIN. Well, if Treasury, signs this agreement to cooperate, even in the future you should just say, Treasury, can we go into Casco or does your order preclude us from going in there, too? I mean, it's so simple.

Mr. DUNHAM. Mr. Chairman, may I make a point?

Chairman ST GERMAIN. Sure.

Mr. DUNHAM. I believe the Northern National Bank, Presque Isle, ME, merged with Casco Bank and Trust under the national charter. We had not examined Casco. However, I believe we did schedule as part of the multinational bank examination at Bank of Boston, a targeted examination of Casco and those findings would be incorporated and considered as part of the examination of the Bank of Boston. I am not aware of what the scope of that was but I—consistent with what we would normally do in a multi-national bank, and looking at an affiliate of that sort, I don't believe we would normally do those procedures there.

Mr. CONOVER. I agree with you that if we can expand the scope of that agreement and get Treasury to sign it and we can improve our communications and cooperation with Assistant Secretary Walker's office, that will help a lot. I would like to point out, however, that it isn't simply a matter of this coming up occasionally regarding one or two banks. We have currently been invited out of 43 banks. So this needs to be a procedure that is well-documented



and thought through and followed in a consistent way in every case.

Chairman ST GERMAIN. I do hope that when Treasury invites you out that they do so with good cause or with good reason and not abuse that authority that's been conferred upon them to do so.

Mr. CONOVER, when Mr. Welles, the U.S. attorney in Boston, testified over on the Senate side, he—and I think you may recall this, said that he has heard of instances where a lower level bank official expressed a view that there might be a competitive edge, when the customers know you're not filing all these forms.

What's your reaction to that statement?

Mr. CONOVER. Oh, I've heard that. There's absolutely no excuse for that kind of mentality. The simple fact of the matter is the law requires that the forms be filed; the banks have got to file the forms; and we have got to be sure that they file them.

Chairman ST GERMAIN. It would be a pretty sad state of affairs, if we found that there were banks that tried to get a competitive edge—

Mr. CONOVER. Absolutely; I couldn't agree more.

Chairman ST GERMAIN. I mean, toasters, wigs, things like that are one thing. [Laughter.]

[Pause.]

Chairman ST GERMAIN. OCC was asked for assistance in looking at an Edge Act of Bank of Boston in New York. Initially, Mr. Serino said, OK. Then he changed his mind. In the memorandum where he changed his mind, he said—and I am paraphrasing—he said, well, it's not our jurisdiction. That's the Federal Reserve's jurisdiction, No. 1. No. 2, the only time we'd go in is if there was a grand jury request that we go in and give you some assistance. In this instance, it was a Senate committee that asked that this be done. He said, we won't go in, if it's just a Senate committee.

Did you see that one, Mr. Conover? [Laughter.]

Mr. CONOVER. I'm not aware of that exchange at all.

Chairman ST GERMAIN. Oh, wait a second. This is not a figment of my imagination.

Mr. CONOVER. No, I wasn't implying that it was. I think we were originally asked if we would help out on the Edge Act, and I think the initial response to that was yes. Then it became clear that helping out meant going in and doing an examination. I think at that point we backed off and said wait a minute, it's not our responsibility to do examinations in Edge Act corporations. That rests with the Fed; you ought to see them.

Chairman ST GERMAIN. Is Mr. Serino here?

Mr. CONOVER. Yes, he is.

Chairman ST GERMAIN. Mr. Serino, why don't you come up here. [Witness sworn.]

Chairman ST GERMAIN. You can sit in Mr. Dormer's seat.

Have you met Mr. Brown? Mr. Brown, Mr. Serino.

Mr. Serino, this is contained in exhibit No. 44. Mr. Conover might want to take a look at this also. I'm wondering how Jake Garn and some people over on the other side will feel about this.

It's a memorandum from June 14, 1983, to Mr. Michael Patrioca, Deputy Comptroller, from Robert Serino.

Mr. SERINO. Yes, Mr. Chairman, I have it.



Chairman ST GERMAIN. Do you have it? OK. The last sentence, the first long paragraph. "I indicated"—oh, wait a minute, no, no. The previous, the last two sentences. "Mr. Stankey indicated the subpoena was that of the Senate subcommittee and not of a grand jury. I indicated that our participation with the Senate staff would give me more pause than assisting a grand jury as an agent."

Would you like to tell me what you mean by that?

Mr. SERINO. Yes, sir. I think there was a prior memorandum to that. It's the next memorandum, Mr. Chairman, a memorandum dated May 31, 1983. That was the first call I guess I received from Mr. Stankey, and I indicated to him in my telephone call, and I remember distinctly going to the multinational division and saying that the Treasury Department needed some assistance. I found out who the examiner in First Boston was. And if you read my last paragraph, "I suggest that we initially make available to the Treasury Department, Steve Conners, the examiner in Boston, who conducted the last international exam, and out of it he can assess the nature of the review and determine who should be assigned to assist in the investigation."

I guess we then subsequently learned that, in fact, it was not the Bank of Boston, but was the Edge Act of the Bank of Boston, and at that time, we had another discussion with Mr. Stankey. And I told him, basically, that we don't have jurisdiction to go in the Edge Act. If you get the records and bring them out—

Chairman ST GERMAIN. You're keeping your boss from having dinner here.

Mr. SERINO. I'm sorry.

Chairman ST GERMAIN. I'm asking you to just explain one thing to me. I read the memos, and they're very clear. "Mr. Stankey indicated the subpoena was that of the Senate subcommittee and not that of a grand jury. I indicated that our participation with the Senate staff"—and here's what I want to—"would give me more pause than assisting a grand jury as an agent."

Mr. SERINO. Because my experience has been, Mr. Chairman, that we oftentimes have examiners designated as agents of a grand jury as special agents. I have not had any recollection of us doing the same with the Senate staff. That is not to say that we have not provided assistance to the Senate staff. We have in the past, on many occasions, provided assistance to them. But it just raised a question in my mind.

Chairman ST GERMAIN. I don't usually get upset on behalf of the Senate, because, as you may be aware, we do have some differences, myself and the Senate. But when I read this one I felt bad for the Senate staff, because I thought, "Aha, Mr. Serino thinks less of the Senate staff than he does of a grand jury."

Mr. SERINO. Mr. Chairman, I've dealt extensively with the Senate Permanent Subcommittee on Investigations, that staff in particular, and they know where we stand on a lot of things, and I have done a lot work—

Chairman ST GERMAIN. So you don't think they're going to be upset with you when they find out that I saw this memo?

Mr. SERINO. That's right. If you read the last paragraph, Mr. Chairman, I basically told Mr. Stankey that that is the Federal Reserve's jurisdiction, but that if you get the records out, we'll be

happy to help you, and oh, by the way, he said to me, if he needed my assistance, he'd get back to me. So I didn't think I left him angry.

Chairman ST GERMAIN. I was very concerned about the first yes answer; then no, with the Senate staff.

Mr. SERINO. Well, that's the reason for it, Mr. Chairman.

Chairman ST GERMAIN. I thought maybe you decided no, because you found out it was the Senate staff.

Mr. SERINO. No, the reason was that it was not one that we examined.

[Pause.]

Chairman ST GERMAIN. Mr. Conover, since Mr. Downey is not here.

Mr. DOWNEY. I'm here, Mr. Chairman.

Chairman ST GERMAIN. Oh, is he here? Oh, gracious Wonderful.

Mr. DOWNEY. I know you were going to get to me.

[Laughter.]

Chairman ST GERMAIN. We didn't want to disappoint you.

Mr. Goldberg, you can switch with Mr. Downey, if you will.

[Witness sworn.]

Chairman ST GERMAIN. Now you, Mr. Downey, have been here. You have heard the discussion about that famous memorandum that went from Connors, Rollo and Wilson, seen by Linville and delivered to Stankey or Landreth, but that Treasury says they didn't see.

However, have you seen that memo, sir?

Mr. DOWNEY. Subsequently. I've been the Chief since, roughly, May 1983.

Chairman ST GERMAIN. May 1983.

Mr. DOWNEY. Right.

Chairman ST GERMAIN. OK, so you saw it subsequent to that time?

Mr. DOWNEY. Yes, sir.

Chairman ST GERMAIN. You saw it sometime in 1983?

Mr. DOWNEY. No, sir. No, sir.

Chairman ST GERMAIN. The beginning of 1984? Mid-1984?

Mr. DOWNEY. I don't believe I seen that till 1985.

Chairman ST GERMAIN. Really?

Mr. DOWNEY. I was not involved with—

Chairman ST GERMAIN. But you were involved in this memorandum or letter, or whatever?

Mr. DOWNEY. What date, sir?

Chairman ST GERMAIN. To Larry Sheafe. That's exhibit 36. S-h-e-a-f-e. OK.

Mr. DOWNEY. Yes, sir.

Chairman ST GERMAIN. All right:

Dear Mr. Scheafe. This is in response to your memorandum, November 6, 1984, regarding the compliance of banks in Massachusetts, 31 CFR 103. In accordance with your request, attached is a copy of our response to former Deputy Secretary Powis' September 22, 1982 memorandum, which was previously submitted to you, to your office. Second, you requested all compliance reports for the First National Bank of Boston from January 1980 through April 1983. We've reviewed the examination reports for this period and note no violations of 31 CFR 103 were reported. Accordingly, there is no additional information available.

Now is that accurate?

Mr. DOWNEY. That statement was accurate, but it's erroneous. [Laughter.]

It was accurate, based on my knowledge, but I subsequently found out that staff, in reviewing it, discovered an error. We had a new automated system where we took stat data sheets, and we put them in—we had violations of law by categories, and we also had a category that was an accumulation of various violations not specifically detailed. We pulled it up on the screen. I did not see the urgency of going through, getting the hard cover or going to another part of the office. I pulled it up on the screen, my staff did, and looking across the line for violations of 31 CFR 103, the stat data sheet reflected no violations.

Subsequent to that, I was informed by my staff that in looking at the hard cover, Mr. Connors had, indeed, pointed out a violation, a major violation of 31 CFR.

Chairman ST GERMAIN. Which violation was that?

Mr. DOWNEY. That was the violation that's shown up here in the charts which represents the domestic transfers of funds.

Chairman ST GERMAIN. How about the fact that the international transfers were not reported?

Mr. DOWNEY. The international transactions were identified, as they are on the chart, and we believed at the time that the dialog between the bank and Mr. Stankey would rectify that. The fact that there was a dialogue going on, reflected that there was some, I guess, some misinterpretation, and the one who interprets the regulations would have been Treasury and Mr. Stankey, and——

Chairman ST GERMAIN. Mr. Connors, did you find a violation of noncompliance with the reporting requirements for international transfers of funds?

Mr. CONNERS. The answer is yes, we found it; no, we did not report it——

Chairman ST GERMAIN. So now we've doubled it; right? Compounded this thing.

Mr. DOWNEY. No, no.

Chairman ST GERMAIN. Mr. Downey, you know what?

Mr. DOWNEY. What?

Chairman ST GERMAIN. You can't keep telling us, you people, well, I didn't know about it. They found it. He just said they found it, but they didn't report it.

Mr. CONNERS. We reported it in the memo. I did not report it in the report of examination.

Chairman ST GERMAIN. You reported it in the memo which went to Karen Wilson.

Mr. CONNERS. Yes.

Chairman ST GERMAIN. Seen by Ms. Linville; right?

Mr. CONNERS. I guess.

Chairman ST GERMAIN. OK?

Mr. Downey, that's a violation. They found——

Mr. DOWNEY. Mr. Chairman.

Chairman ST GERMAIN. They paid a \$500,000 fine for that violation over a period of 5 years. What's the date of this? November 1984. That's a year. November 1984? That's almost 2 years later. You say, no violations.



Mr. DOWNEY. But Mr. Chairman, the violations were reported. If I could in 2 seconds, just take us back. Treasury asked us to go into First National of Boston. And it's very clear in the memo from Mr. Powis what they asked us to do. What they asked us to do was something that Mr. Rollo had worked on at the Federal Reserve Bank in June 1982. Mr. Rollo went in there with four other people from Treasury and IRS and reviewed all the currency transactions for all the Massachusetts banks.

Mr. Rollo left from that job. That information was turned over to Treasury and to the IRS. That information is on the red part of that chart. What they did in June said that there was \$926 million of currency transactions. Mr. Powis said to us, review, when you're in the First National of Boston, the transcurency shipments, both domestic and internationally.

We went into the First National Bank of Boston. We identified \$703 million of currency transactions that we reported as a violation of 31 CFR. That is a major violaiton that was reported to Treasury and was in our report of examination.

Chairman ST GERMAIN. Those are domestic; right?

Mr. DOWNEY. Yes, sir. If you go down that chart, branches, the money there, you do not have to file forms intercompany, which are branches. There is an amount up there on customers. Mr. Connors identified those and Mr. Rollo as being either on the exception list on filing CTR's.

There is an amount of money up on that chart that's reflected in blue, which was the Swiss international transactions. That amount of money represented about 4 percent. It was the amount of money that we, as examiners, could not reconcile. There was some question whether CRT's should be filed, will be filed. That dialog between Mr. Stankey and the bank, I think, is clearly set out in Mr. Connors' memo. The fact that Mr. Connors did not put it in the report, I think he said earlier, if he had another chance, he probably would have. But the fact was that that was being discussed with Treasury and the bank.

My letter was done from a screen and is not accurate; however, it was probably reported prior to that to Treasury.

Mr. STANKEY. Mr. Chairman, I would like to respond to that.

Chairman ST GERMAIN. You know what—excuse me, Mr. Stankey. That's an absolutely preposterous answer. You say it was reported prior to Treasury.

Here was an opportunity to report it a second time.

Mr. DOWNEY. I understand.

Chairman ST GERMAIN. Right?

Mr. DOWNEY. I understand that.

Chairman ST GERMAIN. What does your memorandum say, November 13, 1984?

Mr. DOWNEY. "In accordance with your request, attached is a copy of our response to former Deputy Assistant Secretary Powis"—

I'm sorry. I have to put my glasses on.

Is that the November 13 memo?

Which was previously submitted to your office. Second, you requested all compliance reports for the First National Bank of Boston, Boston, MA, from January 1980 through April of 1983. We have reviewed the examination reports for this period



and note that no violations of 31 CFR 103 were recorded. Additionally, there is no additional information available.

I was in error by signing that statement on that letter, because there were violations and they were reported. I did it from an automated system. My staff did not go to the hard cover. I was wrong.

Chairman ST GERMAIN. All right. Don't—you know, you started telling me, well, I was this, was that. And you cite 37—is that million?

Mr. DOWNEY. Yes, sir.

Chairman ST GERMAIN. Yes, \$37 million. But as a matter of fact, they paid fines for nonreporting of \$1.2 billion. So don't make it look so small, Mr. Downey.

Mr. DOWNEY. In no way did I make it small.

Chairman ST GERMAIN. Well, you were trying to.

Mr. DOWNEY. Yes.

Chairman ST GERMAIN. You were trying. You were trying.

Mr. Wortley.

Mr. WORTLEY. Thanks, Mr. Chairman.

Mr. Rollo, I think you testified before a Senate Permanent Investigations Subcommittee.

Mr. ROLLO. Yes.

Mr. WORTLEY. And you said something, in essence, that you had received 1 week's training to be a trust examiner and no formal training other than on-the-job training for your current position as a bank examiner; is that about right?

Mr. ROLLO. That is correct, Congressman.

Mr. WORTLEY. Essentially correct?

Mr. ROLLO. However, I have since clarified that statement to the Roth committee. What I meant to convey there was that my training regarding 31 CFR 103 was essentially on-the-job training.

I received numerous training courses and classes throughout my entire career for the job I now hold.

Mr. WORTLEY. That kind of conflicted with what Mr. Conover said in his testimony on page 9, when you referred to "your highly competent examination force that receives extensive training."

Mr. CONOVER. That is quite consistent with that.

Mr. WORTLEY. It is consistent with it?

Mr. CONOVER. Yes. In fact, Mr. Rollo did write a letter to Chairman Roth of the Senate Permanent Subcommittee on Investigations clarifying his statement regarding training and attaching to it a list of the formal training courses that he has participated in as an examiner from 1980 through 1985. I think you will find that this training is extensive. We would be happy to submit the list for the record if you would like.

Chairman ST GERMAIN. If you would, we would appreciate it.

Mr. CONOVER. Certainly.

Chairman ST GERMAIN. Without objection, it will be placed in the record at this point.

[The list referred to by Mr. Conover regarding training courses participated in by Mr. Rollo follows:]

Thomas E. Rollo  
Training

1980

District Orientation -- Introductory Bank  
Examination School  
Interagency Basic International Banking  
School (FFIEC)

1981

Interagency Trust School (FFIEC)  
Basic Trust School  
District Orientation

1982

District ANBE School  
Fundamentals of EDP  
EDP in Community Bank Examinations  
Consumer Protection course

1983

Consumer Compliance course  
District Credit Analysis course

1984

AIB -- Analysis of Financial Statements  
ANBE School for Advanced Study

1985

International Credit course

Mr. WORTLEY. When one talks about highly competent training, usually you would expect that it would be something before you got into the on-the-job aspects of it.

Mr. CONOVER. The best way for an examiner to learn to examine a bank is to start examining a bank as part of a special training team, and——

Mr. WORTLEY. Under the supervision of somebody who is more experienced?

Mr. CONOVER. Oh, absolutely.

Basically, bank examiners get a mix of formal classroom training and on-the-job training, where the on-the-job is specially designed and they are well supervised by experienced national bank examiners. For years, we have found that to be an effective training mechanism in developing national bank examiners.

Mr. WORTLEY. Mr. Rollo, did you have a senior adviser or supervisor over you when you went into the bank, or were you on your own?

Mr. ROLLO. I was an assistant national trust examiner before I became on the commercial side, Congressman. Unfortunately, I did not have the benefit of a training crew because there was no one in position at that time. So I basically came over from the trust side and was basically put in the role as a commercial examiner.

Mr. WORTLEY. Without the benefit of some senior supervisor?

Mr. ROLLO. With assistance from various examiners, Congressman.

Mr. CONNERS. If I could say something, Tom was assigned to me when he came over to my crew, and I think one of the very strong aspects of the job is the training. I am no longer with the force myself, but I have found through the years, and if you look at the various banks in Massachusetts, in New England, the alumni that have come off this job have ascended to very strong positions in banking.

As a matter of fact, we have a number of bankers who have put their sons on the job because of the training aspects.

It is an excellent training job.

Now, we do have a problem with getting work done, obviously, and this is a difficult environment, but Tom, over his first 6 months—and I think he will verify this—6 to 7 months on the crew, was consistently assigned with senior people as an assistant in the various areas, and I consciously tried to get Tom into all what I considered critical areas of the examination, consistent with the training crew but not on a training crew basis because we simply—Tom was the only starting assistant at that point in time.

Mr. WORTLEY. Does the office have an adequate number of auditors, inspectors, and people to go in—examiners?

Mr. CONOVER. I think the answer to that——

Mr. WORTLEY. Are you undermanned?

Mr. CONOVER. No; I don't think we are. I think we are staffed properly. We are always trying to figure out ways to carry out our examination function in a more efficient manner, taking advantage of technology, and so forth, so that we are examining smarter and not simply harder by adding people on top of people. I am satisfied that we have an appropriate number of people in the Comptroller's Office.



Mr. WORTLEY. Good. We seem to understand that money launderers once in a while are able to obtain control of a bank; in other words, buy a bank, in order to launder their own money. But now those may be State banks that you are not involved with initially.

But I wonder if you have any suggestions on how we could make some changes in the Bank Control Act or amend it to prevent things like this from happening.

Mr. CONOVER. Sure. One of the problems with the change in Bank Control Act, as you know, is that it calls for almost an automatic approval within a specified and, in fact, very short time period.

Mr. WORTLEY. What is the period on that?

Mr. CONOVER. Is it 30 days?

Mr. WORTLEY. 60 days.

Mr. CONOVER. 60 days.

Mr. WORTLEY. 60 days?

Mr. CONOVER. This is one of the things that we have been particularly concerned about—being able to get information from other bank regulatory agencies or from the law enforcement community as to the character and previous record of individual applicants. It is one of the things that we have been working on in a task force with the Attorney General's Office, and I suspect that there will be some proposed legislation coming forth on that front because it is a serious problem right now.

For example, we sometimes end up in a situation where we call the FBI and ask if they know anything about so and so. They say he is under investigation. We say, can you tell us what the situation is? And they say, no. Then we are in the terrible position of knowing something is fishy, or at least might be fishy, and not being able to use that as grounds for denying the change in bank control application. So we end up approving the darned thing. Sixty days later, the guy turns out to be a crook; he puts the bond portfolio in his briefcase and goes South; and we obviously look stupid as a result.

Mr. WORTLEY. This is a very dangerous situation.

Mr. CONOVER. Yes; it is.

Mr. WORTLEY. And you have to have due cause for refusing to certify change of ownership, correct?

Mr. CONOVER. That is correct. Otherwise, if we say we are not going to approve an application and we have no basis for doing so except a suspicion, that is just an invitation to a lawsuit.

Mr. WORTLEY. Do you have any suggested legislative language over in your shop that we could help to close this loophole?

Mr. CONOVER. I am not sure if Bob is working on it or not.

Mr. SERINO. One of the major concerns is the grand jury secrecy rule, and that is one of the proposals we have with the Justice Department, that we really ought to come up with something to change 6(e), because once something is before a grand jury it is relatively impossible for us to get any of that information.

Mr. WORTLEY. Well, I would ask—

Mr. CONOVER. It is not a problem that is unique to the Comptroller's Office, and that is why each of the agencies is concerned about it and is working with the Justice Department.



Chairman ST GERMAIN. Excuse me. Mr. Serino, all you do is get yourself a couple of newspaper reporters. They get everything. [Laughter.]

Mr. WORTLEY. I would hope that if you have any legislative language that would resolve this problem that you would send it to this committee as soon as possible so we can start putting some things together.

One other item, when a national bank wants to obtain currency from the Federal Reserve system, how do they go about it—with a telephone call or a letter?

Mr. CONOVER. I don't know. Seriously, how do they go about it?

Chairman ST GERMAIN. All of the above. [Laughter.]

Mr. WORTLEY. You are a better authority than the witnesses.

[Witnesses conferring.]

Mr. CONOVER. They call the local Federal Reserve bank and order it either by phone or in writing, and presumably it shows up.

Mr. WORTLEY. You know in a specified period of time?

Mr. CONOVER. I am really not familiar with the procedures on exactly how that is handled.

Mr. WORTLEY. Maybe Mr. Brown would know. He obviously has requested currency in the past.

Mr. BROWN. Yes. If our coin and currency department needed currency for bulk shipments, they will call the Fed and ask the Fed if they can supply them. We have, obviously, a very large account at the Fed, and they will ship us the money and charge our account.

Mr. WORTLEY. Is it like an overnight transaction; the next day they get it to you; or is it—

Mr. BROWN. I don't know, I assume we get it that same day.

Three days?

Three days.

Mr. WORTLEY. It takes 3 days to get it there.

Is there any other source to obtain currency from other than the Federal Reserve? [Laughter.]

No, have you got—

Chairman ST GERMAIN. Go see the Angiulos. [Laughter.]

Mr. WORTLEY. Yes, ask any Angiulo.

Mr. BROWN. You can get currency from correspondent banks and a lot of sources, but if you want new money, you have to go to the Fed. Generally people go to the Fed because they usually want new money.

Mr. WORTLEY. Do you get money from other banks very often?

Mr. BROWN. Oh, sure.

Mr. WORTLEY. Yes.

Mr. BROWN. We supply huge amounts of money to the New England banks, and they ship us their money at times.

Mr. WORTLEY. Why would you go to the Federal Reserve—only if you need brandnew dollars? Is that the idea? Why wouldn't you do it—if you got to wait three days to get it from the Fed and you can go walk across the road and get it—

Mr. BROWN. If it is a correspondent bank, they may be just shipping it in and we just retain it. In other words, if a bank in New Hampshire or Maine has excess currency, they can ship it to us,

and we may or may not turn it over to the Fed. It depends on what our needs are.

Mr. WORTLEY. When you are transferring funds overseas, do you always draw new American currency?

Mr. BROWN. I think so. Do you know? Yes.

Mr. WORTLEY. You are always drawing new dollars?

Mr. BROWN. Yes; they usually request new money.

Mr. WORTLEY. I have no further questions, Mr. Chairman.

Chairman ST GERMAIN. Thank you.

Mr. Conover, as you and I discussed earlier, I made an effort. We have been able to cover everything we wanted to cover with you, but, tomorrow just wouldn't be Thursday in this hearing room if we didn't have Ms. Wilson, Ms. Linville, and Mr. Dunham, and company, because we don't want Mr. Goldberg here alone. [Laughter.]

So could they be with us in the morning?

Mr. CONOVER. I am sure that my colleagues will be happy to be here tomorrow.

Chairman ST GERMAIN. Could they help us here in the morning?

If he is not busy doing anything else, we would also like Joe Selby to join us. He has got such a smile back there.

Mr. SELBY. I knew you would get to me. [Laughter.]

Chairman ST GERMAIN. Mr. Brown and company, we appreciate your coming, and as I told you, we would try to finish it all up today, and we have in fact finished it all up today.

I hope you understand that we are very sincere in our efforts. We spent much time on this back in the 1970's when we first enacted the legislation. I think you are aware of the fact that over the years I have spent a lot of time on bank privacy and other items.

I hope that what you have stated here at this hearing, on more than one occasion today, that you have felt that these hearings as well as the other hearings, though painful—no kidding, we realize that—will be beneficial in that they will encourage other institutions to look very carefully at their regulations and their procedures. I hope that that is accurate.

Mr. BROWN. That is accurate, Mr. Chairman.

Chairman ST GERMAIN. Well, I hope you are right. Unfortunately, over the years I have found that we have held hearings and everybody decides that they are all for America and the flag, the stars and the stripes, and then, gee, they fall by the wayside a year or two later.

So let's hope that there is a—you know, when we first enacted this legislation, we thought that we were doing a great thing. If everybody would cooperate, it would go well, but look what has happened. Many banks around the country have not been in compliance along with the Bank of Boston.

So I am hopeful that you are correct and that we have indeed accomplished something meaningful with these hearings.

We may have some additional questions, which we will submit to you and to your staff in writing. As you look, I am sure that one of the most precious possessions you will have one of these days—and I am going to make sure that you get a copy of your own—will be a record of these hearings. When you read it, and when your chil-

dren read it in later years, you will find out how confusing much of this has been. I think you probably have to agree, Mr. Brown, often sitting here—it is the first time you have been through something like this—trying to reconcile how come so and so didn't communicate with so and so and so and so.

So it is within your bank, but also we saw it amongst the agencies, and we have received assurances here that that is going to be corrected.

So in thanking you for your cooperation, your attendance, and for bringing your personnel here, we also say to you that we join you in your hope that the benefits that will be derived from this will be lasting ones.

Certainly, you have probably read where the administration is thinking of additional legislation in this area. These hearings will prove beneficial to our consideration of whatever legislation may—or changes in legislation—the administration presents to us in the not too distant future, from what I have been told.

So with that, we extend our appreciation to you. The subcommittee will be in recess until 9:30 tomorrow morning.

[Whereupon, at 7:25 p.m., the subcommittee was adjourned, to reconvene at 9:30 a.m., Thursday, April 4, 1985.]



# THE FIRST NATIONAL BANK OF BOSTON

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THURSDAY, APRIL 4, 1985

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS  
SUPERVISION, REGULATION AND INSURANCE,  
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,  
*Washington, DC.*

The subcommittee met at 9:30 a.m. in room 2128 of the Rayburn House Office Building, Hon. Fernand J. St Germain (chairman of the subcommittee) presiding.

Present: Chairman St Germain; Representatives Annunzio, Vento, Roemer, Wylie, McKinney, Wortley, and Roth.

Chairman ST GERMAIN. The subcommittee will come to order.

It seems as if we'd barely gotten over the Bank of Boston's admission that it failed to report \$1.22 billion in foreign currency transactions when along comes the second and third largest banks in Boston with confessions of their own. You'd think they're starting a trend in the Bean City. I only hope that the Bank of New England and the Shawmut Bank of Boston are not paving the way for the fourth-, fifth-, and sixth-largest Boston banks from coming up with revelations of their own.

Now Shawmut has come forward with the news that it failed to report almost \$200 million in currency transactions with 7 foreign banks—all-the-while 20 Boston-area institutions managed to remain illegally on its exempt list.

While Shawmut has been roundly applauded by another congressional subcommittee for its coming clean without being asked, I wonder if it's just altruism that causes a bank to contact the Treasury and the OCC before a \$500,000 plea bargain becomes necessary? I for one plan to hold my praise while the jury is still out.

I must add, however, that it is refreshing to learn that Shawmut did not blame its oversight on the fact that no one at the bank saw the required Treasury regulations, or kept them hidden in an in-box for 10 months.

Less refreshing is the news that our friends at the Bank of Boston are making the front pages again with the revelation that it failed to report 59 transactions, representing \$73 million worth of small bills, which moved from the Central Bank of Haiti to the Bank of Boston International South in Miami.

Our examiners at the Federal Reserve, whose responsibility it is to discover CTR violations at Edge Act banks such as the Bank of Boston International South, not only failed to note these unreported currency transactions, but persisted in their longstanding belief that money laundering is Treasury's province, and not theirs.



I am not accusing the Bank of Boston of money laundering, but I do think we should acknowledge the possibility of money laundering in this day and age, when billions of dollars are moved illegally through our Nation's banks. And, I think it's essential that our friends at the Federal Reserve take their heads out of the sand and actively enforce the Bank Secrecy Act passed by this Congress in 1970. It's just not enough for the Fed to provide the Treasury with only the most basic currency transaction information.

We need to recruit more bankers and Federal regulators in the war against crime. And one of the first lines of defense is the filing of currency transaction reports. That is why I hope we can all learn a lesson from the testimony we will be hearing today.

Mr. Hamill, Mr. Hurley, Mr. Langdon, Mr. Goldberg, Mr. Gusmini, Mr. Ziegler, and Mr. Stankey, would you approach the witness table in that order, from the left to the right?

As the members know, yesterday we introduced 44 documents into the record. Today we have an additional 8 documents, numbers 45 through 52, which we'll now introduce indirectly. If there's no objection, copies will be available to members for questioning today, and for witnesses as well, on the witness table. Without objection, so ordered.

[Witnesses sworn.]

Chairman ST GERMAIN. Please be seated.

Mr. Hamill, we will place your entire statement into the record, and we will call upon John P. Hamill, executive vice president, Shawmut Bank of Boston.

**TESTIMONY OF JOHN P. HAMILL, PRESIDENT, SHAWMUT CORP., AND EXECUTIVE VICE PRESIDENT, SHAWMUT BANK OF BOSTON, N.A.; C. KEEFE HURLEY, JR., SENIOR VICE PRESIDENT AND GENERAL COUNSEL, SHAWMUT BANK OF BOSTON, N.A.; EDWIN K. LANGDON, JR., BANK EXAMINER, OFFICE OF THE COMPTROLLER OF THE CURRENCY; EDWARD GOLDBERG, BANK EXAMINER, OFFICE OF THE COMPTROLLER OF THE CURRENCY; R.M. GUSMINI, BANK EXAMINER, OFFICE OF THE COMPTROLLER OF THE CURRENCY; GREGG ZIEGLER, BANK EXAMINER, OFFICE OF THE COMPTROLLER OF THE CURRENCY; AND ROBERT STANKEY, ADVISER, OFFICE OF ENFORCEMENT AND OPERATIONS, DEPARTMENT OF THE TREASURY**

Mr. HAMILL. Mr. Chairman, I would like to summarize my statement. Mr. Chairman, members of the subcommittee, I am president of Shawmut Corp. and executive vice president of the Shawmut Bank of Boston. The bank has 29 branches, all of which are located in the Boston area.

Chairman ST GERMAIN. I have been asked by the Comptroller's Office to have one of their Counsel make a brief statement. Would you identify yourself.

Mr. LUKE. I'm Jordan Luke. I am a Deputy Chief Counsel at the Office of Comptroller of the Currency. The Office of the Comptroller of the Currency is happy to be at these hearings and has been as fully cooperative as possible with the subcommittee's need for information. We do want to inform the subcommittee that we have received communication from an assistant U.S. attorney in Boston

that he is concerned that information that might be introduced at this hearing could jeopardize an ongoing criminal investigation related to Shawmut in Boston. We want to make sure the subcommittee is aware of that, but we recognize the right of the subcommittee to conduct a full investigation and we're here to be as fully cooperative as possible. I think we also discussed having Mr. Dochow, Assistant Chief National Bank Examiner, sit at the table. I wonder if it's possible to swear him too. We understand that has been discussed with the subcommittee staff.

Chairman ST GERMAIN. This sounds like a dormant Congress. Was this on the phone? Do you know who you talked to or who talked with whom?

Mr. LUKE. Joanne O'Brien? I apologize.

Chairman ST GERMAIN. Boy oh boy, Ms. O'Brien was asked to make a name plate. That's all. There's no problem. We'll have Mr. Dochow come up and swear him in. We're going to try to get our act together. This is another example of falling between the cracks. Would the gentleman approach the table and we'll swear him in.

Mr. LUKE. We appreciate your indulgence.

[Witness sworn.]

Chairman ST GERMAIN. Mr. Hamill, pardon the interruption. You may proceed.

Mr. HAMILL. Thank you, Mr. Chairman. I am president of the Shawmut Corp. Shawmut provides financial services principally to individuals and local and regional businesses. On February 19, 1985, we advised the Comptroller and the Treasury that from the period 1980 to early 1985 we had failed to file CTR's for transactions with a number of our customers. This lapse of reporting occurred despite a good faith effort by the bank to comply with the CTR requirements. When we discovered deficiencies in our reporting through an intensive internal review, we brought those deficiencies to the attention of the Treasury and the Comptroller at the earliest opportunity.

That meeting took place on February 19, 1985, per two telephone conversations we had on the afternoon of February 14 and the morning of February 15. At that meeting and the followup meetings, we presented the conclusions of our internal review and submitted CTR's for foreign bank transactions back to 1980. Exemption applications for the 20 customers eligible for the exemption have been filed with the Treasury Department.

Our review confirmed that Shawmut made a serious effort to comply with the Bank Secrecy Act. As I will describe, this is not a case where no one at the Bank saw the 1980 regulations when they were issued. In fact, the branch division of the bank received them and applied them diligently if not perfectly. The bank's currency department, however, did not see the 1980 regulations.

I would like to explain for a moment the difference between the branch division and the currency department. The branch division is the main point of contact with consumers and commercial customers in the Boston area. The currency department, which is separate from the branch division, deals principally with domestic and foreign banks and local institutions, including the educational institutions, airlines and churches mentioned earlier. Some of this



goes to the reason why the currency department did not get the regulations.

If I might go back to 1972 when the Bank Secrecy Act became effective, transactions with foreign banks were exempt, as were transactions in the "customary conduct" of a customer's business. These exemptions basically meant that all customers with whom the currency department had currency transactions were exempt from the reporting requirements. The 1980 amendments removed the general exemptions for foreign bank transactions and limited the domestic customer exemption. When the 1980 changes became effective, they were routed to the branch division, which for the previous 8 years had been the area of the bank which dealt with the Bank Secrecy Act. From that time forward, the branch division complied with the amended regulations through regular updating of the exempt lists and periodic reminders of the importance of full CTR compliance. The currency department unfortunately never received a copy of the change in the regulations and continued to operate as it had for the previous 8 years.

In 1983 the currency department, as a result of certain changes in operations at the branch offices, began to deal with certain deposits of branch customers. As a result, the currency department began to maintain its list of the customers that it did business with, and continued to believe that these customers were exempt from currency transaction reporting requirements. These lists were filed with the bank's branch division so that all such lists would be in one place for regulatory inspection. They complied with this requirement in that it put together the exempt list and provided the list to the branch division where it could be available for regulatory inspection.

Unfortunately the currency department was incorrect in what it did, but it thought what it was doing was correct when it put together the exempt list. That list would satisfy the requirements of the CTR regulations, with the exception of the 7 foreign banks and the 20 domestic customers that had in good faith been put on the list; and again those were, many of them, well known institutions in the Boston area.

As have indicated, all cash transactions with these 20 domestic customers had been normal for the conduct of the customers' business activities. As allowed by Treasury regulation, Shawmut has now applied for specific permission to exempt these customers. The foreign banks that Shawmut treated as exempt also are all long-standing customers of the bank. The vast majority of these transactions consisted of deposits coming into Shawmut. In turn, Shawmut would transfer those funds by wire to accounts maintained by those foreign banks—

Chairman ST GERMAIN. Excuse me. Could I interrupt you? You say, "In the course of our internal review, we found that Shawmut's exempt list would satisfy the requirements of the CTR regulations, with the exception of the 7 foreign banks and 20 domestic customers put on the list." Prior to the 1980 change of the regulations—which is one reason we delayed—you did not have to report currency transactions with foreign banks. With the advent of the 1980 regulations you did have to. I don't think there is any provision to exempt foreign banks; correct?

Mr. HAMILL. I agree.

Chairman ST GERMAIN. You say seven foreign banks were on the exempt list. How many foreign banks were not on the exempt list, with which you had cash transactions?

Mr. HAMILL. There had been one foreign bank, a Canadian bank that was not on the list, so eight in total were the number that we had.

Chairman ST GERMAIN. That you were doing business with?

Mr. HAMILL. Cash transactions.

Chairman ST GERMAIN. Did you file the required forms for the Canadian bank?

Mr. HAMILL. No, we did not. When the exempt list was put together, the seven banks were put on the list, and there was an additional Canadian bank not put on the list; that was an oversight at the time.

Chairman ST GERMAIN. So, you're doing business with eight banks whose business cash transactions should have been reported subsequent to 1980?

Mr. HAMILL. Yes, sir.

Chairman ST GERMAIN. Seven of those banks were put on the exempt list even though they didn't qualify for an exemption; right?

Mr. HAMILL. Right.

Chairman ST GERMAIN. Then you have the eighth bank. What is that, in limbo up in space?

Mr. HAMILL. No.

Chairman ST GERMAIN. You didn't exempt it; but didn't report it?

Mr. HAMILL. We missed putting it on. Exactly.

Chairman ST GERMAIN. Frankly, you say you missed putting it on the exempt list. None of them should have been put on the exempt list.

Mr. HAMILL. That's correct.

Chairman ST GERMAIN. The law is not an easy one to catch up with. Now we have this in perspective.

Mr. HAMILL. I understand. The foreign banks that we did business with included one in Spain, two in Portugal, one in Ireland and four in Canada. All are long-term customers of the bank, some for as many as 50 years and none less than 20 years. Deposits of currency from foreign banks from 1980 to 1985 totaled \$161.3 million. Withdrawals totaled \$33.9 million, all going to Canadian banks except for \$327,000 going to a bank in Ireland.

We have taken a number of steps to comply. I have attached to my prepared statement our application forms that now must be filled out by branch managers before any customer can be put on the exempt list. In addition, we have upgraded our training with regard to our personnel in order to be able to continue to have the various parts of the Bank Secrecy Act well known by people in the bank.

Mr. Chairman, we have not done as well as we should have done. We should not have missed this particular regulation. But we think it was localized in the currency department. As we look back as to why it happened, we think we understand why it happened. It is unfortunate. We regret we did not find the error, but we have



always sought to be fully cooperative with the Office of the Comptroller and the Treasury Department with regards to the enforcement of the CTR requirements and with regard to this particular matter. We voluntarily brought it to the attention of both the Comptroller and the Treasury within days of having found the error ourselves. We have not sought to withhold or delay giving information to the Comptroller or the Treasury, and we believe a new compliance program will continue to improve our performance as we go forward over the coming years. We stand ready to cooperate with your subcommittee, the Treasury and the Comptroller, and I will be pleased to answer any questions at this time.

[Mr. Hamill's prepared statement on behalf of the Shawmut Bank of Boston follows:]

STATEMENT OF JOHN P. HAMILL,  
PRESIDENT, SHAWMUT CORPORATION,  
AND EXECUTIVE VICE PRESIDENT, SHAWMUT BANK OF BOSTON, N.A.,  
BEFORE THE  
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS SUPERVISION,  
REGULATION AND INSURANCE,  
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,  
UNITED STATES HOUSE OF REPRESENTATIVES,  
APRIL 4, 1985

Mr. Chairman, members of the Subcommittee, I am President of Shawmut Corporation and Executive Vice President of the Shawmut Bank of Boston. The bank has 29 branches, all of which are located in the Boston area. Shawmut provides financial services principally to individuals and local and regional businesses.

On February 19, 1985, we advised the Comptroller and the Treasury that from the period 1980 to early 1985 we had failed to file CTRs for transactions with a number of our customers. This lapse in reporting occurred despite a good faith effort by the Bank to comply with the CTR requirements. When we discovered deficiencies in our reporting through an intensive internal review, we brought those deficiencies to the attention of the Treasury and the Comptroller at the earliest opportunity.

Since that internal review of the Bank's compliance procedures, we have taken a number of specific steps to improve the level of our compliance with the CTR requirements. Attached to my testimony is a copy of a recent memorandum from our Legal Department to all branch managers and the manager of our Currency Department setting forth our current detailed procedures for compliance with those requirements. The memorandum includes an application form that must be completed and approved by our Legal Department before any customer can be placed on the Bank's exempt list. We have also stepped up our training programs to make sure that these improved procedures will be followed diligently in every section of the Bank in which currency transactions may take place.

I would like to describe briefly how we discovered our reporting deficiencies, and how those deficiencies came about. We began our internal review on February 7, 1985. The principal focus of the review was the CTR exempt list maintained by the Bank.

We concluded that the Bank had inadvertently continued to treat certain customers as exempt which, after the 1980 amendments to the Treasury Department regulations, it was not authorized to exempt without specific Treasury authorization. These customers included 7 foreign banks which had long standing relationships with Shawmut and 20 well-known

local institutions and other companies. The list includes churches, cultural organizations, educational institutions and scheduled airlines.

At that point, we met with the Treasury Department and the Office of the Comptroller at the earliest possible date, February 19, 1985. In these meetings, and in their follow-up, we presented the conclusions of our internal review and submitted CTRs for foreign bank transactions back to 1980. Exemption applications for the 20 customers of the Bank eligible for such an exemption have been filed.

Our review confirmed that Shawmut made a serious effort to comply with the Bank Secrecy Act. As I will describe, this is not a case where no one at the Bank saw the 1980 regulations when they were issued. In fact, the branch division of the Bank received them and applied them diligently, if not perfectly. The branch division filed over 800 CTRs from 1980 through 1984. The Bank's Currency Department, however, did not see the 1980 regulations.

The deficiencies in Shawmut's compliance resulted from human error. The background of these deficiencies lies in the history of how the CTR compliance requirements were integrated into the Bank's operations from the commencement of the CTR program in 1972. The branch division is the main point of contact with both consumers and commercial customers



in the Boston area. The Currency Department, which is separate from the branch division, deals principally with domestic and foreign banks and local institutions, including educational institutions and scheduled airlines.

In 1972, when the Bank Secrecy Act became effective, transactions with foreign banks were exempt, as were transactions in the "customary conduct" of a customer's business. These exemptions basically meant that all customers with whom the Currency Department had currency transactions were exempt from the reporting requirements.

The 1980 amendments removed the general exemption for foreign bank transactions and limited the domestic customer exemption. When the 1980 changes became effective, they were routed to the branch division, which for the previous 8 years had been the area of the Bank which dealt with the Bank Secrecy Act. From that time forward the branch division complied with the amended regulations through regular updating of the exempt lists and periodic reminders of the importance of full CTR compliance. The Currency Department, unfortunately, never received a copy of the change in the regulations. It continued to operate as it had for the previous 8 years.

In 1983, the Currency Department began to assume some responsibility for large deposits from branch customers.

As a result, the Currency Department began to maintain its list of the customers that it did business with and continued to believe that these customers were exempt from currency transaction reporting requirements. These lists were filed with the Bank's branch division so that all such lists would be in one place for regulatory inspection.

In the course of our internal review, we found that Shawmut's exempt list would satisfy the requirements of the CTR regulations, with the exception of the 7 foreign banks and the 20 domestic customers that had in good faith been put on the list. The domestic customers that Shawmut was erroneously treating as exempt included:

- ° 9 educational, religious and health organizations and scheduled airlines; and
- ° 11 commercial firms located in eastern Massachusetts.

As I have indicated, all cash transactions with these 20 customers have been normal for the conduct of the customers' business activities. As allowed by Treasury regulation, Shawmut has now applied for specific permission to exempt these customers.

The foreign banks that Shawmut treated as exempt also are all long-standing customers of the Bank. The vast majority of transactions with these customers consisted of deposits. In turn, Shawmut transferred funds by wire to accounts maintained by the foreign banks at other U.S. banks.

The foreign banks in this group included 1 in Spain, 2 in Portugal, 1 in Ireland and 4 in Canada (including 1 not on the exempt list). All are long-term customers of the Bank -- some for as many as 50 years and none less than 20 years. Deposits of currency from foreign banks from 1980 to 1985 totalled \$161.3 million; withdrawals totalled \$33.9 million.

- ° In the case of the banks in Spain and Portugal, \$78.8 million was received in deposits over the five-year period, with the average deposit at approximately \$258,000. No currency was sent to the Spanish or Portuguese banks.
- ° In the case of a bank in Ireland, approximately \$327,000 in currency deposits were received over the five-year period, and in the same period \$327,000 in coins was sent for use in making change at a duty-free shop at Shannon Airport.
- ° In the case of the Canadian banks, approximately \$82.1 million in currency deposits were received over the period, for an average of approximately \$73,000. The Bank sent \$28.6 million in currency over the same period, principally to serve tourist demand, and, in several instances, to provide exchange for Canadian naval personnel about to call at American ports.
- ° In addition, a single currency transaction took place in 1983 with a Swiss bank that has been a long-time customer of the Bank. Shawmut was asked to send \$5 million in currency to the foreign bank. The Swiss bank had wired funds to Shawmut for the transfer, so no currency was deposited with Shawmut in connection with this transaction.

Another area where reports should have been filed involves our purchases and sales of foreign currency. Shawmut purchases Canadian currency, primarily from the Federal Reserve Bank, with lesser amounts from correspondent banks and other

customers, which it then sells to a Canadian bank. Shawmut also purchases and sells foreign currency from and to domestic banks and currency exchange companies. Reports of these transactions have been prepared and filed with the Treasury Department to the extent required.

In conclusion, Mr. Chairman, we should have done better, and we regret that we did not. Shawmut has always sought to be fully cooperative with the Office of the Comptroller and the Treasury Department with regard to the enforcement of the CTR requirements. We have never sought to withhold or delay the giving of any information with regard to the requirements as we understood them. We believe that our currency transaction reporting compliance program is now fully up to date, and we will make every effort to keep it that way in the years ahead. We stand ready to cooperate with your Subcommittee, with the Treasury and with the Comptroller in any way appropriate.



**Shawmut Bank**

C. Keefe Hurley, Jr.  
Senior Vice President and  
General Counsel

February 25, 1985

TO: Branch Managers  
Manager, Currency Department

FROM: C. Keefe Hurley, Jr.,  
Senior Vice President  
and General Counsel

SUBJECT: Currency Transaction Reporting  
(Bank Secrecy Act)

Recent developments in the enforcement of the currency transaction reporting requirements of the Bank Secrecy Act serve as a timely reminder of the importance of careful compliance with these requirements in the branch banks and the Currency Department.<sup>1</sup> This memorandum provides an update of these requirements and sets forth revised procedures for compliance with them.

#### Purpose of Currency Transaction Reports

Many individuals and organizations engaged in criminal activity use financial institutions to conceal the proceeds of those activities. The Form 4789 Currency Transaction Reports ("CTRs") described below are used by law enforcement agencies in criminal, tax and regulatory proceedings. It is the responsibility of all branch personnel to be familiar with the CTR filing requirements. In addition, branch personnel should be alert to and report to the Branch Manager any instances in which it appears that attempts are being made to use the Bank's services to "launder" currency. Situations that could give rise to such concerns include:

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<sup>1</sup>In the remainder of this memorandum, references to Branch Managers or branch personnel will also be deemed to include the Currency Department and its manager and personnel.

- o A customer engaging in numerous cash transactions in amounts just below the \$10,000 threshold for completion of CTRs;
- o A individual customer who makes large cash deposits or withdrawals when the business of that individual or his corporation is not of a type known to generate substantial amounts of cash;
- o Corporate accounts whose transactions are dominated by cash rather than by other forms of payment commonly used in commercial transactions, such as checks, loan proceeds, letters of credit, or banker's acceptances.

#### Currency Transaction Reports

Unless the transaction is a deposit or withdrawal<sup>1</sup> within the customer's limit on the Bank's current exempt list, the Branch Manager or Assistant Manager must complete and file a Form 4789 (copy attached) for each and every deposit, withdrawal, exchange of currency, purchase or cashing of cashier's checks or other payment or transfer, by, through, or to the Bank, which involves a transaction in currency of more than \$10,000. Multiple transactions by or for any person which on any one day total more than \$10,000 should be treated as a single transaction. Within fifteen days of the transaction, the form must be sent to: Internal Revenue Service, Ogden, UT 84201. A copy must be sent to Branch Administration where it is required to be retained for five years. There are federal criminal and civil penalties for violations of these requirements.

#### Exempted Transactions

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<sup>1</sup>Unless the customer is a government entity or a domestic bank, the fact that a customer is on a current exempt list affects only the reporting of deposits or withdrawals within the specified customary limits; all other transactions in currency in excess of \$10,000 (e.g., the purchase or cashing of cashier's checks or exchange of currency) must be reported for these current exempt list customers.

The Bank has authority to exempt from the Form 4789 filing requirements specific size and type transactions with certain customers if (i) the amounts sought to be exempted are reasonable and customary in the course of the customer's business or activities, and (ii) the transactions fall within the limits for that customer on the Bank's current exemption list.

The following are the only transactions and customers that the Bank has authority to place on its CTR exempt list:

- (1) transactions with domestic banking institutions, i.e., banks, trust companies, savings bank, savings and loan associations and credit unions (no exemption is granted for foreign banks);
- (2) deposits or withdrawals of currency from an existing account by an established depositor who is a U.S. resident and who --
  - (a) is primarily engaged in the U.S. in the retail business of providing goods (not services) to ultimate consumers for which it is paid substantially in cash (wholesalers and automobile, boat and airplane dealerships are not included); or
  - (b) operates a sports arena, race track, amusement park, bar, restaurant, hotel, licensed check cashing service, vending machine company, or theater;
- (3) deposits or withdrawals, exchanges of currency, or other payments and transfers by local or state governments or by the Federal government or any of its agencies or instrumentalities;
- (4) withdrawals for payroll purposes from an existing account by an established depositor who is a U.S. resident and who operates a firm that regularly withdraws more than \$10,000 to pay employees in currency;
- (5) transactions with Federal Reserve Banks or Federal Home Loan Banks.

Maintenance of Exempt List

The placement of a customer on the Bank's exempt list is the joint responsibility of the Branch Manager and the Legal Department. A transaction with a customer may be considered exempt from reporting only after the Branch Manager has completed all of the following steps:

- (1) determined that the transactions sought to be exempted satisfy at least one of the criteria in paragraphs (1) through (5) above;
- (2) determined that the transaction dollar amounts and frequency do not exceed what would be considered normal for the size and nature of the customer's business;
- (3) completed the attached Application form and forwarded it to the Legal Department for its review;
- (4) received from Legal Department written confirmation that the exemption has been approved.

Until the exemption application has been approved, all currency transactions with the customer over \$10,000 must be reported. Similarly, even after the customer has been approved to appear on the exempt list, any currency transaction that exceeds the deposit or withdrawal amounts specified on the list as customary for that customer, or that does not come within the pattern of the customary conduct of the customer's lawful domestic business, must be reported. The Legal Department will verify that the list is current on a yearly basis.

The Legal Department will maintain a centralized copy of the exemption list. For each customer, the list must contain current information in the following format:

Name:  
 Address:  
 Line of Business:  
 Account Number(s):  
 Maximum customary deposit:  
 Maximum customary withdrawal:  
 TIN:



APPLICATION FOR CURRENCY TRANSACTION  
REPORTING (FORM 4789) EXEMPTION

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This document must be completed by the Branch Manager or, in the case of the Bank's Currency Department, by the Manager of that Department, for any transactions which are sought to be exempted from currency transaction reporting requirements. The document must then be submitted to the Legal Department for approval. No exemption is effective until this document has been returned approved by the Legal Department.

I. Customer and Amounts Sought To Be Exempted

- a. Customer Name \_\_\_\_\_
- b. Customer Address \_\_\_\_\_  
\_\_\_\_\_
- c. Customer Social Security  
Number or T.I.N. \_\_\_\_\_
- d. Customer Account Number \_\_\_\_\_
- e. Amount of Currency Transactions  
Commensurate With Customary Conduct of the Lawful  
Domestic Business of the Customer
- Withdrawals Up To \_\_\_\_\_
- Deposits Up To \_\_\_\_\_

II. Customer's Line of BusinessA. Banking Institutions

Currency transactions of those customers who are within one of the categories listed below are exempted from currency transaction reporting if they also satisfy the requirements sought by the applicable questions on pages 6 and 7.

If the customer described in Section I comes within any of the categories listed below, place a check mark next to that category.

- |      |  |       |
|------|--|-------|
| i.   | Federal Reserve Bank   | _____ |
| ii.  | Federal Home Loan Bank   | _____ |
| iii. | United States branch or<br>office of a domestic<br>bank (bank, trust<br>company, savings &<br>loan association,<br>credit union) | _____ |
| iv.  | United States branch or<br>office of a foreign<br>bank (but not any<br>foreign bank office<br>outside the United<br>States)      | _____ |

If you checked any of the above categories you need not consider the questions on pages 3 through 5 of this document, and may proceed directly to page 6.

B. Customers Other Than Banking Institutions(i) United States resident

a. Is the customer a United States resident?

YesNo

b. What is your basis for concluding that the customer is a United States resident?

Driver's License \_\_\_\_\_ Incorporation Papers \_\_\_\_\_

Passport \_\_\_\_\_ Other \_\_\_\_\_

(ii) Line of business

Check the line of business which applies to this customer.

a. Sports arena \_\_\_\_\_

b. Race track \_\_\_\_\_

c. Amusement park \_\_\_\_\_

d. Bar \_\_\_\_\_

e. Restaurant \_\_\_\_\_

- f. Hotel \_\_\_\_\_
- g. Check cashing service  
licensed by state or  
local governments \_\_\_\_\_

Name of Licensing Agency \_\_\_\_\_

License No. (or attach  
copy of documentation  
verifying fact customer  
is duly licensed) \_\_\_\_\_

- h. Vending machine company \_\_\_\_\_
- i. Theatre \_\_\_\_\_
- j. Retail Business primarily  
engaged in providing goods  
to ultimate consumers and  
for which the business is  
paid in substantial portion  
by currency (but excluding  
automobile, boat, or  
airplane dealerships) \_\_\_\_\_
- k. Local Government (e.g., City  
of Boston) \_\_\_\_\_
- l. State Government (e.g.,  
Commonwealth of  
Massachusetts, State of  
Rhode Island) \_\_\_\_\_
- m. United States, or any  
of its agencies or  
instrumentalities  
(e.g., Department of  
Defense) \_\_\_\_\_
- n. Operator of a firm that  
regularly withdraws more  
than \$10,000 in order to  
pay its employees  
in currency for payroll  
purposes (only withdrawal  
exemption available) \_\_\_\_\_



- If you checked "j" (Retail Business) please answer the following questions.

What is the customer's business? \_\_\_\_\_

What goods does the customer sell? \_\_\_\_\_

Are the goods provided directly  
to the consumer?

Yes

No

Is this business a type  
of business which is paid in  
substantial part by currency?

Yes

No

- If you checked "n" (Withdrawals for Payroll Purposes),  
please answer the following questions.

What is the customer's business? \_\_\_\_\_

What caused you to conclude that the customer's business  
uses regular cash withdrawals in excess of \$10,000 in order  
to pay its employees in currency (for payroll  
purposes)? \_\_\_\_\_

How long has the customer been making such withdrawals?  
\_\_\_\_\_

### III. Customary Nature of Established Customer's Transactions

#### A. Government Customers

This part should be completed only if the customer is a state or local government, the United States or any United States agency or instrumentality.

- |      |   |     |    |
|------|---|-----|----|
| (i)  | Are the transactions sought to be exempted in amounts which are customary?  | Yes | No |
| (ii) | Are the transactions sought to be exempted in amounts which are consistent with the authorized activities of the agency or instrumentality? | Yes | No |

#### B. Non-Government Customers

This part should be completed for non-government customers.

- |       |  |     |    |
|-------|--|-----|----|
| (i)   | How long has the customer had this account at your branch? |     |    |
| (ii)  | Does this customer regularly make deposits?                | Yes | No |
| (iii) | Does this customer regularly make withdrawals?             | Yes | No |

Please explain how you determined this customer's customary deposit and withdrawal limits (Item I(e) above). \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Are this customer's deposit and withdrawal limits (Item I(e) above) consistent with the customary conduct of the lawful domestic business of this customer?

Yes

No

Date: \_\_\_\_\_

\_\_\_\_\_  
Branch Manager

Date: \_\_\_\_\_

\_\_\_\_\_  
Currency Department

APPROVED:

Date: \_\_\_\_\_

\_\_\_\_\_  
Legal Department

Chairman ST GERMAIN. I must say your statement is definitely in contrast with that which we heard yesterday, and that's refreshing. Mr. Hamill, there are those of us on the committee who have the very distinct feeling that the reason we've seen a number of violations or noncompliance is, in fact, due to an attitude that this wasn't really all that important. I'm wondering if you would address yourself to that. Do you think that we are erroneous in reaching that conclusion?

Mr. HAMILL. Mr. Chairman, I think that there is certainly, in the case of Shawmut, an attitude that these are important regulations.

Chairman ST GERMAIN. As of today or as of February 1985? We don't do investigations, generally. We had a former examiner of the Office of the Comptroller of the Currency here yesterday. He came before us and was asked why there wasn't more diligence in a followup on the fact that there was noncompliance on foreign cash transactions by the Bank of Boston. He just looked up and said, "Well, it didn't seem as though that had anything to do with money laundering." There were some very lengthy hearings on both sides, House and Senate, and then the Treasury Department—they are certainly not looking for additional work—has been very diligent in watching the movement of funds. It seems to me that that bank examiner took a lot upon himself to say, "I didn't feel as though this was money laundering."

Then we heard the examiner, the examiner sitting before me, in the Office of the Comptroller of the Currency, come before me yesterday afternoon; he thought it was a funny matter. Mr. Goldberg gave me that impression: "They just missed it. Just missed it," he said. As though to say, "So what?" I wasn't impressed with that attitude. That's an attitude on the part of the regulators, and the fact that some banks are in noncompliance, so many banks with very able personnel, makes one wonder, if this is a pervasive attitude.

Mr. HAMILL. Mr. Chairman, again, I do not believe that is so in our case—as I look back over the course of what happened, I see what we missed and how we missed it. I also see, however, an attempt to comply with the regulations when people understood the regulations and were then moving forward in their compliance. Obviously we made a mistake. We did miss an area, and that of course was unfortunate, but I do think that it was not a total lack of concern with respect to the area.

Chairman ST GERMAIN. Mr. Stankey asked for verification procedures as we discussed yesterday, with respect to Shawmut Bank. Do you recall that conversation I had with Ms. Wilson and Mr. Dunn yesterday? Why was it that Treasury—I would assume it was Mr. Stankey of Treasury—had asked for these additional procedures to be performed at Shawmut Bank in particular, and what was the date on that again? That was September 1982.

Mr. STANKEY. The Shawmut Bank was one of, I believe, nine banks that we asked the Comptroller of the Currency to take a second look at. As a result of the information gathered during the survey at the Federal Reserve Bank in Boston in June of 1982, we developed information indicating substantial amounts of currency transactions between the Federal Reserve and the Bank of Boston and other banks in Boston under Comptroller's supervision, and



the records of the Treasury Department indicated that relatively few currency transaction reports had been filed by those banks, including the Shawmut Bank.

Chairman ST GERMAIN: As a matter of fact, as we learned yesterday, the additional procedures you asked for at Shawmut Bank never were performed. Isn't that correct?

Mr. STANKEY. That's my impression from the hearings yesterday.

Chairman ST GERMAIN. Mr. Goldberg, if indeed you had performed the procedures as requested by Treasury, would you have come upon the fact that Shawmut Bank was in violation by putting foreign banks on their exempt list?

Mr. GOLDBERG. Which procedures do you mean? The September memo never spelled out exactly what was required.

Chairman ST GERMAIN. Did you look at the exempt list?

Mr. GOLDBERG. Not personally, no. It was performed by Mr. Ziegler.

Chairman ST GERMAIN. Mr. Ziegler, did you look at the exempt list?

Mr. ZIEGLER. Yes.

Chairman ST GERMAIN. Did you note the presence on the list of foreign banks?

Mr. ZIEGLER. It's been disclosed to me recently that we did not receive a complete listing from the bank. The listing I received did not list foreign banks.

Chairman ST GERMAIN. There were two lists; right? The branch and the currency department each contained a list.

Mr. ZIEGLER. I received the branch listing, which I assumed was the complete listing.

Mr. HAMILL. May I speak to that?

Chairman ST GERMAIN. Explain how that would happen, please.

Mr. HAMILL. 1983 was the first time that the list was prepared by the currency department and provided to the branch division to be held in one place for regulatory inspection. As I understand it, the 1983 examination requested the exempt list. It was our understanding that the two lists were provided to the Comptroller's office as a result of that examination. In 1984, the same procedure was used and both lists were provided. As we have looked through the matter, the Comptroller's office had informed us that yes, they did have the 1984 two lists, but their work papers for 1983 did not contain the list of the currency department. Our people thought that they had provided both lists, but possibly that did not happen. We think that they did, but it could have been an oversight on our part in not providing it, because the Comptroller's Office cannot find it in their work papers.

Chairman ST GERMAIN. How many exemptions did you have on the currency department list, and how many on the branch list?

Mr. HAMILL. The branch list had about 50 on the list, and the coin and currency department had listed the foreign banks and other organizations plus some domestic banks that we do business with.

Chairman ST GERMAIN. You had 100 on the branch list?

Mr. HAMILL. That's correct. For the 29 branches that we do business with.

Chairman ST GERMAIN. How many branches does the Bank of Boston have? As many as you do?

Mr. HAMILL. I think they have more, but I do not know the number.

Chairman ST GERMAIN. Yesterday we saw they had four on their exempt list for the entire Bank of Boston. You had 100?

Mr. HAMILL. That's right.

Chairman ST GERMAIN. In 1984, both lists were provided?

Mr. HAMILL. Yes, sir.

Chairman ST GERMAIN. Ms. McCarthy is the one who performed that exam?

Mr. GUSMINI. Yes, Mr. Chairman, under my supervision.

Chairman ST GERMAIN. As a result of that exam, she picked up the fact or—would you tell us about that one? What did that contain?

Mr. GUSMINI. The bank did provide us with both lists, the one from the currency department as well as from the branch administration.

Chairman ST GERMAIN. Would you speak into the microphone?

Mr. GUSMINI. I'm sorry. The foreign banks were listed on the currency department list at that time.

Chairman ST GERMAIN. What did you do, or Ms. McCarthy do? When in 1984 was this examination performed?

Mr. GUSMINI. It opened November 30, 1984, although work essentially started January 7, 1985, due to the Christmas holidays and so forth. Ms. McCarthy was involved in school and was out sick. She was and is pregnant; that's the reason she's not here today. She actually started the examination of the cash and 31 CFR 103 area in early February. Of course, looking at the lists it was obvious to us that the foreign banks did not belong there. There were also names that did not truly fit the retail definition of the regulation—approximately 20 corporate names that are fairly well known in the Boston area and perhaps across the country in some instances. Do you want me to proceed with dates and how we interacted with the bank?

Chairman ST GERMAIN. I'm trying to determine when the Comptroller's Office first became aware of the violations and their subsequent action. When did you—you were her supervisor? You were the Chief Examiner or lead examiner?

Mr. GUSMINI. Examiner in Charge.

Chairman ST GERMAIN. This examination was assigned to Ms. McCarthy?

Mr. GUSMINI. Correct.

Chairman ST GERMAIN. When did she tell Mr. Meany about what she had found, as far as the exemptions that were improper?

Mr. GUSMINI. That would have been sometime in the second week of February.

Chairman ST GERMAIN. Second week of February. When was a meeting requested by Ms. McCarthy or yourself with Shawmut officials to discuss this?

Mr. GUSMINI. February 14, sometime either late morning or early afternoon, we called Mr. MacKinnon, who was the corporate auditor.

Chairman ST GERMAIN. Prior to that, when Ms. McCarthy looked at the exempt list, was it then obvious to her that there were exemptions granted that were improper?

Mr. GUSMINI. Yes; it was obvious.

Chairman ST GERMAIN. Now was she in the Comptroller's Office or at home? Where was she when she went over those lists?

Mr. GUSMINI. In the bank.

Chairman ST GERMAIN. In the bank itself. It's unfortunate she couldn't be here. Have you discussed the details of this with her before coming in this morning?

Mr. GUSMINI. During the examination, of course, and afterward we have talked about it, yes. She is in her seventh month of pregnancy, that's why she's not here.

Chairman ST GERMAIN. I appreciate that fact. My question is—we've got more heart attacks, pregnancies and kneecap bustings, early retirements—peculiar set of circumstances. She was in the bank. Was she in the coin and currency department when she went over the list or in the branch division when she went over the list?

Mr. GUSMINI. We were in the main office.

Chairman ST GERMAIN. You were with her?

Mr. GUSMINI. Yes.

Chairman ST GERMAIN. She received this list and you were sitting around the table like this going over papers?

Mr. GUSMINI. Yes.

Chairman ST GERMAIN. What did she address you as, "Boss"?

Mr. GUSMINI. "Dick."

Chairman ST GERMAIN. Did she say, "Dick, look what I found—there are foreign banks on this exempt list"?

Mr. GUSMINI. Yes.

Chairman ST GERMAIN. And did she ask you if she was correct in assuming they shouldn't be there?

Mr. GUSMINI. Yes; she did.

Chairman ST GERMAIN. You concurred that that was improper?

Mr. GUSMINI. Yes.

Chairman ST GERMAIN. Now, were you in a room all by yourself?

Mr. GUSMINI. There may have been another individual present, I don't know.

Chairman ST GERMAIN. Would that have been an individual from the bank or the OCC?

Mr. GUSMINI. From the OCC.

Chairman ST GERMAIN. Did you go out to lunch or for coffee or something like that?

Mr. GUSMINI. I don't remember exactly.

Chairman ST GERMAIN. My point is, did either you or Ms. McCarthy discuss this finding with anyone at the bank at that point?

Mr. GUSMINI. Well, let me explain that. I was attempting to do that earlier. Midday or early afternoon on the 14th, we called the corporate auditor, Mr. MacKinnon, to discuss our concerns about the exempt list with him. The 15th was a Friday, an earned day off—we work on a flexible work schedule. Monday the 18th was a holiday, and Mr. MacKinnon's schedule wouldn't permit a meeting on the 14th, so we arranged to meet with him on the 19th. At approximately 5:15 that afternoon, Mr. MacKinnon came to us and indicated that the bank had contacted our district office in New



York because they felt they may have had some problems with their compliance.

Chairman ST GERMAIN. Let me see if I have this straight. It was on the 14th or the 15th that you and Ms. McCarthy noted——

Mr. GUSMINI. The 14th. We had actually noted it a day or two before that. We contacted the bank on the 14th to set up the meeting.

Chairman ST GERMAIN. Did you tell the bank why you wanted to set up the meetings?

Mr. GUSMINI. We told them we wanted to talk about compliance with 31 CFR 103.

Chairman ST GERMAIN. Did you tell them what the problem was, the fact that the exempt list contained names that shouldn't have been on there?

Mr. GUSMINI. We did not relay any particulars at that point.

Chairman ST GERMAIN. Was this Mr. MacKinnon and you?

Mr. GUSMINI. I was in the room when Ms. McCarthy spoke with Mr. MacKinnon.

Chairman ST GERMAIN. On the telephone?

Mr. GUSMINI. Yes.

Chairman ST GERMAIN. She said, "We want to discuss violations of 31——"

Mr. GUSMINI. "We want to discuss the bank's compliance with 31 CFR 103." It was conveyed in a general sense. Any specifics would have been discussed at the meeting on the 19th that we arranged.

Chairman ST GERMAIN. On the 19th, you were informed that they had contacted OCC in New York?

Mr. GUSMINI. No, we were informed on the 14th, at approximately 5:15 p.m., the same day that we had called to arrange the meeting.

Chairman ST GERMAIN. Mr. Wylie?

Mr. WYLIE. Thank you very much, Mr. Chairman. I apologize for being late in getting here. I would take this opportunity to welcome John Hamill here this morning who is a friend from his days in Columbus.

I would say to the panel that yesterday's hearings revealed an unfortunate chain of events with respect to carrying out the intent of the Bank Secrecy Act, and in retrospect it appears that the Comptroller's office had not made the Bank Secrecy Act procedures a top priority. It is also becoming more apparent that there are, in fact, gaps in the law which we need to rethink. But the *Bank of Boston* case seems to be just the tip of the iceberg, and today we're hearing from officials of Shawmut with respect to their internal failures to comply with the law.

Other banks have come forth and acknowledged their failure to comply with current reporting requirements, and in addition we hope to be enlightened by the Federal Reserve discussions here this morning as to its role in supplying currency data to investigate criminal activity. Once we've examined specifics in more detail, the public will best be served by us shifting our attention from the symptoms of the problem to implementing the mechanisms for strengthening the Bank Secrecy Act.

From what we have heard, Mr. Hamill, it seems that compliance with the Bank Secrecy Act was not a high priority with several



banks. To what extent did this reflect the regulatory treatment of the Bank Secrecy Act's provisions?

Mr. HAMILL. Congressman, I do not believe that necessarily the regulatory treatment or examination process is the cause for non-compliance. I think the issue is one of missing certain regulations or misinterpreting regulations. And while the regulatory process goes on, I think it is our responsibility to come up with the proper compliance, so I do not attribute the lack of compliance to the regulatory process itself.

Mr. WYLIE. You don't attribute it to a lack of motivation on their part to make this a higher priority? And that's a straight question; I'm trying to be a devil's advocate to see what did happen. We've had two cases here in 2 days, the Bank of Boston and now Shawmut, apparently did not make reporting under the Bank Secrecy Act a high-priority item and did not take necessary steps to implement the mechanism for those reporting requirements. I'm trying to find out from you where you think the breakdown might have come.

Mr. HAMILL. I think clearly there is a shared responsibility in that we each have our responsibilities. And in our case, if we did not fix and meet this particular responsibility, that is our problem; and if the regulators did not find certain violations as part of their regulatory process, it's part of theirs. But I think going back that it is not a complete breakdown. Obviously there are things that were not done that should have been done, but there were other things that were done that reflected well on the process.

Mr. WYLIE. This question has been asked rather ancillary, but I would ask it directly of the whole panel: Do any of you have a suggestion as to what we might do or what we should do as a committee to recommend that a law be passed to get better compliance with the Bank Secrecy Act?

Mr. HAMILL. Congressman, I think that the hearings obviously have a dramatic impact both in the banking industry and also outside of the banking industry. I think in terms of the legislation itself, there are a number of bills that have been submitted to take a first step along the lines of addressing the issues. There are obviously complex issues involved, however, in those bills. I think that a process such as this will at least lead to better things both on the part of the banking industry and also others as to beefing up the requirements that need to be met under the act, and I think over a period of the next couple months as this process unwinds, we will have a pretty good bill that can come out of these committee hearings.

Mr. WYLIE. Anyone else like to comment on that?

Mr. DOCHOW. Yesterday in testimony before this subcommittee, the Comptroller of the Currency, Mr. Conover, addressed that same question, and I would like to reinforce some things he said at that time. He mentioned that there are several bills pending, bills sponsored by people on this subcommittee and in the Senate. In both cases, those bills deserve careful consideration and have general support from this office. They are, however, complex as Mr. Hamill has said, and there needs to be a careful balancing.

Some particular suggestions that we might make would be regarding the exemption list. I think Mr. Conover yesterday referred

to some establishments that are exempt, drawing attention to those cases where it may be more appropriate to have currency reports filed. At the same time, that must be balanced against the burden of the reporting requirements. As you remember, over 700,000 CTR's were filed last year. That's a substantial number to process and analyze to better focus the compliance efforts of the agencies.

I also want to compliment Mr. McKinney for looking at the forms. I think the forms themselves could be clearer, more specific as to when you file and when you don't file. They could specifically reference not being allowed on the exemption list.

I think there are a number of issues, and we will work with the trade associations and others to help make changes to improve compliance in this area.

Mr. WYLIE. I want to follow up on that. In establishing your exempt list, which seems to be the source of a considerable amount of difficulty here, do you have a thorough background check of your customers? Do you have a procedure that the branch manager or somebody in the branch has to follow to ascertain whether the applicant for the exempt list meets certain standards?

Mr. HAMILL. Congressman, we had followed the know-your-customer rule and had the branch manager be the one who had to have the customer put on the exempt list. We have modified that to go one step further, and now have an application form whereby the branch manager must fill out the application form and send it to the legal department to review that form before any name will go on the exempt list, because of some of the complexities that were alluded to with regard to the kinds of customers that may or may not be put on the exempt list.

Mr. WYLIE. One witness suggested that there was a bonus offered which might encourage branch officers to accept customers of questionable repute who would bring in extremely large amounts of cash. Do you have any practice like that which provides for incentives to encourage branch officers to bring in such customers?

Mr. HAMILL. No; we do not.

Mr. WYLIE. Thank you.

Mr. ANNUNZIO. Thank you, Mr. Chairman. I'm hoping that these hearings will bring about a change in the enforcement policies at the Justice Department for violation of the Bank Secrecy Act. The current attitude seems to be that the problem is solved by asking for a fine against the offending institutions and then dropping the matter. Apparently this approach has led a number of banks to confess the violation of the act, because the banks know that their officers or employees run no personal risk in admitting violations of the act. In fact, several news stories have appeared that have suggested that some form of amnesty agreement had been worked out between the Justice Department and the offending banks. So many banks are coming forward to admit they broke the law it will not be long before the Justice Department requires banks to take a number and wait in line to confess.

The problem, Mr. Chairman, is that we're taking the wrong action, as I mentioned yesterday, in punishing the offenders. It's not the banks that are violating the law. Banks are nothing more than brick and mortar. It is the people who work in and run those banks that are violating the law. But we do not punish the people



who break the law, no, we punish the institution. Fines are imposed against the institution which are quickly and eagerly paid because no individual is involved, and how fair is a fine of \$500,000 for violation of the act on a total \$1.2 billion? It would appear that not only does the punishment not fit the crime, but the punishment actually encourages the crime. I imagine in some cases it's even possible for the bank to deduct the fine from the income tax.

I have what I believe to be one answer to the problem. What we need is to retrain these bankers who are breaking the law. We need to teach them a new skill so they can be productive members of society, not lawbreakers. I propose that we teach them the skill of license plate pressing. It is a skill that has caused many a lawbreaker to change his way and give up his life of crime. There are many fine training centers around the country that teach the skill of license plate pressing. Leavenworth, Sing Sing, Folsom, San Quentin, just to mention a few. The best part about the training is that it is free. And in some of the training sites license plate pressers even receive a small wage. Of course the money would not be enough to pay for country club dues and chauffeurs, but it would buy cigarettes, candy, and perhaps a lower bond.

Mr. Chairman, you all know this. If a bank robber steals \$1,000 from a bank, he is likely to get a prison sentence anywhere from 10 to 20 years, but a bank that handles more than \$1 billion in illegal transactions gets only a slap on the financial wrist. If we want to stop the crime, let's put the bank officer on the same team as the bank robber. The bank robber can press one side of the license plate and the banker can press the other side. As I mentioned yesterday and in interviews that I've had, when passing legislation we have to start handing out tough prison sentences to guilty bankers and see if the confession business drops off at the Justice Department.

Mr. Hamill, I was looking at exhibit 51, which is a letter to the Treasury Department outlining some of your failures to report currency transactions. In the last paragraph you make a plea citing exemptions from the Freedom of Information Act to keep all of this secret. I ask you, Mr. Hamill, don't you think that the public has a right to know, when an institution is insured and protected by the Federal Government, if it's violating the law?

Mr. HAMILL. Congressman, the request there that was in that letter did not have to do with the question of the total transaction, but merely had to do with names of the customers who happen to be on the exempt list, and we were not requesting a general—

Mr. ANNUNZIO. Answer my question. I understand that, but don't you think that the public has a right to know? You know, I, myself, have been undressed and dressed in public so many times: the Federal election law, business disclosure law, ethics law—we disclose. Do you agree with that or disagree? Do you think the public has a right to know—yes or no?

Mr. HAMILL. Yes; I do.

Mr. ANNUNZIO. Mr. Hamill, you make a great deal of to do about your internal investigations that uncovered Shawmut's failure to comply with the Bank Secrecy Act, pages 1, 2, and 3 of your testimony. Apparently you are looking for some sort of public commen-

dation, a medal of some kind for finding your own mistakes. But, Mr. Hamill, was this self-investigation all that voluntary?

I want you to follow me closely. On page 2 you state that the internal review began on February 7, 1985. That just happens to be the very day that your big brother, the Bank of Boston, trotted down to the courthouse, entered a plea of guilty to violating the Bank Secrecy Act, was fined a half million dollars. At that point you began your internal review because you were afraid that the cops were just outside your door. Isn't that the case?

Mr. HAMILL. Congressman, as I mentioned in my opening statement, when the Bank of Boston announcement was made, our people then realized that foreign banks were not able to be on the exempt list. As soon as they heard the announcement, that is what triggered our investigation. Up until that moment in time, they continued mistakenly to believe that the foreign banks and the other 20 domestic institutions were exempt.

Mr. ANNUNZIO. I yield to my distinguished friend.

Mr. ROEMER. I thank my friend from Chicago for yielding.

Is that also when you had a foreign bank not on the exempt list that you weren't reporting transactions on?

Mr. HAMILL. Obviously, Congressman, we began the process then, and it was during the course of the next few days or 7 or 8 days that that became known to us.

Mr. ROEMER. It's true, but it's not the whole truth, to say that it's then when you discovered that foreign banks were not eligible for exemption. The truth is you were doing business in cash with a foreign bank that wasn't even on the exempt list.

Mr. HAMILL. Congressman, that is correct. We were incorrect in putting the foreign banks on an exempt list; and the chairman I think went through that scenario and I agree with him.

Mr. ROEMER. I know it's your job to put the best face on this you can; I don't want to put a false face on it.

Mr. HAMILL. Not at all.

Chairman ST GERMAIN. Mr. Hamill, I knew there was something that bothered me. Prior to 1980, there was no requirement that cash transactions with foreign banks be reported; isn't that correct?

Mr. HAMILL. That is correct.

Chairman ST GERMAIN. Subsequent to 1980, there's a requirement that cash transactions with foreign banks be reported. Isn't that correct?

Mr. HAMILL. That is correct.

Chairman ST GERMAIN. Obviously, contrary and in contrast to the Bank of Boston situation, where they were very consistent. By that I mean as far as we could determine yesterday, they didn't read newspapers. They didn't read the ABA publications. They didn't read The American Banker. The best no-readers I've seen in years. Obviously your people do read. Why do I say "in contrast and contrary to"? Obviously there were people in your organization—and not the legal department; we'll get to that in a few minutes—who recognized the change, because they put foreign banks on an exempt list. Is that not correct?

Mr. HAMILL. They did put foreign banks on the exempt list, but that happened in 1983, Mr. Chairman.



Chairman ST GERMAIN. OK, in 1983 it happened? At that point in time, somebody obviously said, "They are not automatically exempt any more, they have to be put on an exempt list." Prior to 1983, were you reporting transactions with foreign banks?

Mr. HAMILL. No; we did not.

Chairman ST GERMAIN. On one hand you have seven banks that are on the exempt list, then you have a bank not on the exempt list. Why didn't you report the Canadian bank not on the exempt list? You knew if they were that you had to report.

Mr. HAMILL. Mr. Chairman, the mindset is again in the Currency Department where we are dealing with customers who in the ordinary course of business have large cash transactions. The incorrect assumption in 1983 was that a list had to be prepared; not that anything else had to be done, but just that a list had to be prepared. That was incorrect.

Chairman ST GERMAIN. An exempt list, not "a list?"

Mr. HAMILL. An exempt list.

Chairman ST GERMAIN. They put seven foreign banks on the exempt list?

Mr. HAMILL. And the other customers they were doing business with.

Chairman ST GERMAIN. Let's just stick with the banks at the moment, because that's what is so peculiar here. You have eight banks, their mindset is with eight banks; right?

Mr. HAMILL. No, Mr. Chairman, the currency department deals with those banks as well as domestic banks.

Chairman ST GERMAIN. They were dealing with eight foreign banks—Mr. Hamill, in 1983 the currency department put seven foreign banks on the exempt list.

Mr. HAMILL. Mr. Chairman——

Chairman ST GERMAIN. Isn't that what you told me a few seconds ago, Mr. Hamill?

Mr. HAMILL. Plus the other customers they were doing business with.

Chairman ST GERMAIN. We realize that. Let's stick with the banks, please.

Mr. HAMILL. OK.

Chairman ST GERMAIN. They put seven banks on the exempt list, seven foreign banks on the exempt list thereby indicating an awareness of the fact that if those banks had to be on the list—and by the way, they knew they had to be on the list as of 1980 on; right?

Mr. HAMILL. No, they did not.

Chairman ST GERMAIN. Well, the 1983 action is taken in response to the 1980 change in the regulations, is it not?

Mr. HAMILL. The 1983 action was taken as a result of the fact that the currency department was told that it was necessary to keep an exempt list for customers. The communication was incorrect because it was not complete enough. Yes, an exempt list had to be maintained——

Chairman ST GERMAIN. As of when did they have to make the exempt list?

Mr. HAMILL. The exempt list for the currency department would have had to be maintained starting in 1980 if they had realized the distinction that needed to be made between the kinds of customers.

Chairman ST GERMAIN. Isn't that what I said, and you said "no"? When they put them on in 1983, they were doing it in response to the 1980 requirement. Therefore, they say to themselves—erroneously, of course—but they say: "They are not on the exempt list. We better get them on there because they are exempt." Isn't that what they say?

Mr. HAMILL. I think what they said was that the customers we do business with ordinarily in the course of their business have cash transactions—

Chairman ST GERMAIN. That's not what I'm asking you. I said that they now know those people have to be on the exempt list for 1983, as of 1980.

Mr. HAMILL. Well, whether in 1983 they knew it was as of 1980 I am not sure, but in 1983 they said, yes, these people have to be on the exempt list.

Chairman ST GERMAIN. Why didn't they report the transactions they had not reported between 1980 and 1983?

Mr. HAMILL. Obviously they did not—

Chairman ST GERMAIN. Second, the other bothersome thing—because I want to go to other Members here—they put seven banks on, and conveniently left one off. You talk about "illogical," being illogical. That's not an easy one to explain away. That's why I said at the beginning of this hearing, sounds great—February 7 you find out Bank of Boston has been caught. They haven't reported transactions with foreign banks and they got whacked with a half a million dollar fine. So all of a sudden, you decide to fess up to this. You knew in 1983, someone did, that you had been doing something wrong, and you continued to do so by leaving a bank off.

At this time, I'm going to our next questioner. I'll come back to you.

Mr. McKINNEY. Thank you, Mr. Chairman. I congratulate Shawmut on their good luck on arriving on a day before recess. Mr. Brown was here from 10 in the morning to after 7 last night. I don't think any of us will be here at 7 tonight. You're relatively lucky.

I wanted to follow through on what Mr. Wylie asked, and to thank you for your comments. It seems to me that if I follow this reporting business through—which nobody seems to have been bothering to do anywhere—but if it were being done properly, the branch manager would fill out a report which would go to the main bank which would then be sent to the OCC, and when OCC was able to it would be put on a computer list; is that right? Straighten me out on that; I think we would like it on the record.

Mr. DOCHOW. As a bank fills out a cash transaction report, those reports are centralized in Utah where they are put in a main computer within the IRS system. That computer system is then accessed around the country—

Mr. McKINNEY. What I meant, that's not OCC's computer, that's IRS computer?

Mr. DOCHOW. Yes. One important thing to remember is that the regulations are Treasury regulations, the enforcement is Treas-

ury's, and as such the OCC's responsibilities are to ensure the compliance of national banks.

Mr. McKINNEY. Could you give me a ball park figure? Let's say I run the Stratford branch of the City Trust in Bridgeport, CT. As a branch manager I fill out a form that goes by night delivery to the main office. Could you give me a time lag on this, just a ball park guess between the time it's filled out at the branch and the time it gets put in the big computer in the sky in Utah where the air is free and clear?

Mr. DOCHOW. That would be better addressed by the IRS, but the regulations provide that financial institutions—remember we're talking about 40,000 financial institutions that fill these out—and, have 15 days during which to report to the IRS. And, remember there were 700,000 filed last year. I don't know if that can be interpreted to mean that—

Mr. McKINNEY. Tell me no more. After 14 years in this town I'm used to entry computer lag. So really it could be a month, month and a half, before this happening gets in the main computer.

Mr. DOCHOW. I would only be guessing. The other side is that when the forms are incompletely filled out, and there are quite a large number of those, they are returned to the financial institutions or our examiners for review at the next examination.

Mr. McKINNEY. On the face of this, it seems to be something we should be looking at; I fully support this. If the idea is to catch or help catch organized crime through this method, it would seem to me, though each bank should certainly have a paper record, there should be some way that branch banks should be able to punch directly into a computer which would go directly to Utah or wherever, so that in fact on that very day there would be a record of the transaction. When I used to run a retail business, I used to love the checks I received that weren't signed. "Oh, I forgot to sign it." Or I loved the checks that came when I got the grocery store and they got the tire store check, but it was a wonderful way not to bounce a check at your bank.

A wonderful way under this system, it seems to me, Mr. Chairman, for someone to make a slight mistake on the form; that way it takes about another month or so to get it entered correctly. But if we're really looking to catch things, No. 1, it seems we need a computer program which would go "tilt." These guys are too clever for this, but if there was an Ed Jones with accounts in three different banks it would go "tilt" practically on the very day that the transactions were made; and then Mr. Hamill's people would obviously be responsible for keeping the form on file, because your examiners would know—by just punching into that system they would know all of those reports that have been filed out of the Shawmut and they could look for the paperwork at the bank and anything else.

Does that make sense?

Mr. DOCHOW. Obviously, with the number of transactions involved, automation is a way people ought to be looking, both automation within the bank and in internal systems. I think we heard yesterday that in Bank of Boston's case they were working on such a system so they could on a regular basis identify those transactions that would aggregate to over \$10,000 for a single customer in



a single day. The same applies to the agencies. Customs has a very elaborate system at this time as I understand it, and I believe the information in Ogden, UT has been put on tape and sent to San Diego customs.

Mr. McKINNEY. How do you handle the cashier's check issue at this time? I walk in, throw \$800 down on the counter, and say, "Give me a cashier's check made out to Joe Zilch." Any way you can trace any of those things?

Mr. DOCHOW. Again, let me remind the subcommittee as a whole, because the questions are right on target, that this regulation, as I understand it, is a recordkeeping financial reporting regulation. When you are dealing with cashier's checks, there's an automatic record at the financial institution that shows the name of the individual who bought the check, how it was endorsed to the bank and so forth. The purpose of the CTR filings when they reach the threshold amount is so that the Treasury Department and its various bureaus can better identify those transactions that require further scrutiny.

Mr. McKINNEY. One last question, Mr. Hamill; I was going to ask one question, because we've bounced around on it and I found the Bank of Boston's answer unsatisfactory. There's no point in being a racketeer unless you can make the money, so therefore the stakes are pretty darn high. Is there anything that your bank does as a policy to check on quote, unquote, "corruptibility" of your employees, or the possibility that one is being corrupted by bribes which would be cheap at half the price to launder the money?

Mr. HAMILL. I think, as with many companies, we begin with a statement of principle to set out ground rules, and I think that clearly enunciates what the policy is of the organization and what the responsibilities of the various employees are. From time to time, if there are suspicious happenings revealed as a result of audits done or personal checking accounts that may show some enormous balances that you would not expect, that might come to our attention; and in the normal course, therefore, the auditing function would attempt to pick up somebody who would be bribed by a potential customer. It is a very difficult situation. It is not easy, because by definition it is a fraud on the company and by definition is something that is done very surreptitiously. I think at this point that is the best we can do in trying to avoid those kinds of situations.

Mr. McKINNEY. Thank you, Mr. Chairman.

Chairman ST GERMAIN. Mr. Roemer?

Mr. ROEMER. Thank you, Mr. Chairman.

Mr. Hamill, has your bank been fined for its lack of compliance with the law here?

Mr. HAMILL. No, we have not.

Mr. ROEMER. Do you expect to be fined or penalized in any way?

Mr. HAMILL. We have gone through a recitation of how we came upon this and what has happened, and at this point in time we have turned over everything that we have to the appropriate authorities. We do not see anybody having done anything knowingly or intentionally wrong, and at this point in time we would hope that the authorities to whom we have given these documents would find the same.



Mr. ROEMER. Has a wrong been done?

Mr. HAMILL. I think that the question of what the wrong is under the statute is the issue.

Mr. ROEMER. Has a wrong been done under the statute?

Mr. HAMILL. I think that if the wrong is defined as it is under the statute of intentionally and willfully not complying, then no.

Mr. ROEMER. So no wrong has been done?

Mr. HAMILL. Under the terms of the statute as I have described it, I think that is true.

Mr. ROEMER. I do not want to put words in your mouth. It is your position that no wrong has been done, right, no problem here?

Mr. HAMILL. I did not say that, Congressman. I said obviously there is a problem.

Chairman ST GERMAIN. May I interrupt? The Comptroller's Office a few seconds ago mentioned something about the U.S. Attorney in Boston, didn't he, and Shawmut et cetera?

Mr. HAMILL. Yes, sir.

Chairman ST GERMAIN. Are you in negotiations there?

Mr. HAMILL. No, Congressman.

Chairman ST GERMAIN. Are you under investigation?

Mr. HAMILL. We were informed a couple weeks ago and have made that public that the U.S. Attorney's office does have the matter under investigation, as we would expect.

Mr. ROEMER. You are being investigated now, your bank?

Mr. HAMILL. That has been public knowledge for a couple weeks now.

Mr. ROEMER. What's the extent of the avoidance in dollar terms on the part of your bank of domestic and international, since when there was a need for an exempt list? Since the time that there were requirements for reporting, what's the full extent of your avoidance of those regulations in dollar terms?

Mr. HAMILL. The dollar terms, Congressman, as we have laid out in the various exhibits that we have provided, is approximately \$210 million.

Mr. ROEMER. All that is with international banks or are you in avoidance violation domestically?

Mr. HAMILL. That basically is the foreign banks we dealt with, cash withdrawals and deposits, and that's—

Mr. ROEMER. Do you know, Mr. Hamill, or expect to find in the current investigations any domestic transgressions?

Mr. HAMILL. Congressman, we do not know of any at this point in time; I just do not know of any.

Mr. ROEMER. The Bank of Boston went through, you know, a brief 6-hour tap dance yesterday on their relationships domestically. I wondered if you had any problem with it.

Mr. HAMILL. At this time we have disclosed all we have found.

Mr. ROEMER. Let me pick up on questions asked by the chairman and my friend from Chicago. You said earlier that "We found the error ourselves"; that "We had voluntarily reported avoidance." Is that true? Did you have an internal auditing procedure that you go through every 6, 8, 10, 12 months and this came out or didn't? In fact, Mr. Hamill, am I wrong to think that the pressure was mounting and that somebody—not necessarily you, but somebody in your organization—knew for some time that there was going to

be a problem, and that you had to take the easiest way out with voluntary compliance now?

If I'm being too cynical, correct me, but these have been long hearings and there's a lot more to go, and I get a feeling that something is wrong here. We could say it's wrong because the regulations were laughed at; we could say it's wrong because we could blame the Office of the Comptroller and say they were not rigorous or vigorous with their application; it could be wrong because Congress overregulates; it could be wrong because you don't see any relationship between cash flowing easily and drug money made legitimate; it could be wrong because of oversight or error or lack of attention. But I don't think it's fair, Mr. Hamill, to proudly proclaim voluntary compliance with more than \$200 million of avoidance and ignore the fact that the pressure had mounted and sharply mounted on your organization. Am I being overly cynical?

Mr. HAMILL. You said a lot that I agree with, but the conclusion I do not agree with. I think I have made it clear in my statement, and I will say it again, that the reason that we became aware of these matters was because of the announcement by the Bank of Boston. That was the trigger. We are not particularly proud of the fact that that was the trigger. What we did thereafter is a matter of record. As soon as we realized that there was a problem, we began the mechanism to try to find out the extent of the problem—

Mr. ROEMER. Let me interrupt you right there. Mr. Stankey or someone from the accounting team gave me the impression that your bank was one of nine Massachusetts banks that had made a let's-check-these-guys-more-closely list long before your voluntary announcement "We have discovered avoidance." Am I right, Mr. Stankey?

Mr. STANKEY. Actually it was 1 of 20 banks in Massachusetts.

Mr. ROEMER. Is Massachusetts a hotbed of avoidance, or did you just start there?

Mr. STANKEY. In 1982 it appeared that—

Mr. ROEMER. It's so good to find Louisiana trailing somebody in these areas.

Mr. STANKEY. In 1982 it was rather apparent that there was widespread noncompliance in Massachusetts, and that triggered these memos to the Comptroller of the Currency and the Federal Reserve asking them to do an indepth review of certain banks.

Mr. ROEMER. Did the Shawmut Bank know that they were targeted for this further investigation during this period of your knowledge? Did you inform them?

Mr. STANKEY. No. Ordinarily we don't intervene in the compliance procedure.

Mr. ROEMER. Ordinarily you would not have informed them and you followed ordinary procedures here.

Mr. STANKEY. Exactly.

Mr. ROEMER. Did your bank know it was targeted?

Mr. HAMILL. No, we did not. In the course of the last few weeks, as these hearings have gone on, we found out about it.

Mr. ROEMER. Let me conclude by thanking you for coming and appreciate your attempting to answer our somewhat frantic questions, because we are concerned about this. There's not a person on



this committee that doesn't want the banking industry to be strong and safe and secure and put its best face forward. It hasn't done that in these operations, and I would love to blame Mr. Conover, a comptroller who doesn't believe in regulations supported by this President to regulate banks. That's certainly an ingredient for disaster. I'll call for his firing monthly, starting today. I think it goes much deeper than the Office of Comptroller; I think it goes to, as Mr. Annunzio said, the personal liability of the men and women who run the great banks of America. They are going to have to feel the bite of these regulations, and they can thank you in part. Thank you.

Mr. McCOLLUM. Thank you, Mr. Chairman.

It seems to me there are two facets to this, and the one with the most attention is the failure to comply; the compliance question. I know the banks involved. Many of those who are not here and haven't testified have found the same type of problem that Shawmut has found, have gone back in now and the Bank Secrecy Act is hopefully going to be complied with. It seems abysmal that it took this magnitude of a situation to get the attention of the major banks in the country.

The other facet that we from time to time touched on—Mr. Wylie did a minute ago—that I would like to explore this morning is the remedy side of additional remedy to see what other legislative steps might be taken. Yesterday I asked Mr. Brown the question after asking about something in the compliance area that I would like to ask you. In the bill that I introduced a couple weeks ago, there's a provision that we change the right to financial privacy laws.

The present law as I read it allows for a bank to disclose to the Federal authorities the fact that there's suspicion surrounding some of the currency transactions that may be going on—perhaps illicit illegal sources and so forth of the money—but not to disclose any of the actual material, unless of course the agency comes in and gets involved in some way. The amendment that I would propose to it that has been endorsed by the President's Organized Crime Commission task force would allow for the bank and provide for the bank to disclose actual material where there is suspicion; in other words, to come forward and allow the bank to be protected from civil suits that might be filed otherwise under the right to financial privacy by a customer.

Do you believe that a change in the law of this nature would be helpful to the banking system; would be something that would in fact encourage more and quicker disclosure of suspicious transactions that might lead ultimately to stopping the real problem which is here? Of course that's the use of the banking system for activities to launder money, if you will, by particularly organized crime. Do you think such a change would be something you would advise, or—

Mr. HAMILL. Congressman, we have thought a lot about it. We have looked at it and thought a lot about it, and the complexity of the question deserves more than just a few sentences. I would be happy to spend that time in writing with you.

Mr. McCOLLUM. I would appreciate that.

Mr. HAMILL. In a few short sentences, because of the various statutes that go to the right to privacy that this Congress has passed over the course of the years, I hesitate to say that we should be too quick to push those aside. But I recognize the seriousness of the problem that we are trying to deal with. That balancing act seems to me to say that we could lean more toward at least reporting of suspicion, if not actual documents, because obviously the reporting of suspicion would then perhaps lead to the investigation that would produce the kind of results you are trying to get at.

Mr. McCOLLUM. You're allowed to report suspicion, but that's about it; and it's an awfully affirmative thing that's been placed on the authorities, because they may get 15,000 reports of suspicion. That doesn't mean much to them, but if you were able to submit something more tangible to them I could see that would be a far more efficient way of going. You're concerned about how far that goes, and I am too; that's why I asked the question do you think we could craft a law to protect you and protect the customer and not allow too much to be disclosed, but help the authorities get at these things, help you be able to give them something in those flagrant cases where you have more than a mere suspicion?

Mr. HAMILL. My concern is we might wind up with the law that was crafted such that banks would feel that they had to report any time there was suspicion all the documents that they had. You might find the regulatory process of the agencies inundated and you might have just the reverse result from what you hoped to have.

Mr. McCOLLUM. That's the kind of response I was curious about. We're all just talking hypothetically—I realize you haven't had a chance to study specific language in my bill—but I would welcome your comments aside from this hearing or add it into the record, your thoughts about the specific language now in the bill or suggestions to perhaps word it more narrowly.

I would like to ask the Comptroller's Office a question about the exempt list and changes that could be made there. It's been suggested—Mr. Hughes in his legislative proposal touches on it—suggested that maybe we ought to come forward with a provision that requires the customer to make a formal request for an exemption, and perhaps in the process of making that formal request to sign an affidavit that's like in your Internal Revenue Code that says that the source of the currency involved in this is, if you will, from whatever nature it is. So that if in fact it is not and it is really from a criminal source or some other source, A, we have a way to prosecute; and B, we would have a trail rather than leaving it up in the air.

And from the hearings yesterday it seems to me—I don't know about Shawmut, but Bank of Boston didn't have any internal system of having a formal question to the customer. The applications you appear to use don't appear to have any customer signature line to start the formal process off. Would that be an overly burdensome thing, or could it be the same form most banks now are perhaps beginning to use, just start it earlier and add some signatures as it goes up the pipeline?

Mr. DOCHOW. Let me comment briefly. You raise a very important issue. Presently, most customers do not know that they are on



an exempt list. Some would argue on the one hand that if a customer knows he is on the list, it's a green light to use that exemption for purposes that would not readily be lawful. On the other hand, those people would argue that by having a customer fill out a form or an application to be eligible for an exemption list, you then have solved the major portion of the problem since the bank knows who the individual is, knows the principal and the organization background, and can use that application for a more thorough check. As I understand it, the bill Mr. Hughes has proposed would require an affidavit. That seems to make enforcement, if in fact there were illegal funds coming into the bank, much easier, so it may be a very worthwhile thing to look at. We would certainly work with you in exploring that further.

Mr. McCOLLUM. Mr. Stankey, you have been involved with this; do you concur with that view?

Mr. STANKEY. I think we have a little different perspective of the problem. The exempt list was not for the convenience of the customer. Ordinarily he shouldn't care one way or another whether he's on the exempt list. The entire purpose of the exempt list was to limit an undue burden of paperwork on the banking industry. As far as getting additional information from a customer. Fine, I'm sure that it would be useful, but I don't think that in any way that should absolve a bank from endorsing the legitimacy of the exemption. They should be required to know their customer, and I wouldn't want to see that changed.

As far as being on the exempt list and then saying this is a green light, it's not really a green light. The exempt list is an amber light, because the bank is required at the time it grants the exemptions to determine independently the limit to which it can exempt its customers' transactions without filing a report, and if they have an exemption set for say \$20,000 and somebody comes in with \$30,000 or \$40,000, that should trigger a report automatically. So the bank is still obligated to monitor what its customer is doing, and I wouldn't want to do anything that would interfere with that.

Mr. McCOLLUM. I recognize what you're saying. I hope that all you gentlemen in the enforcement and compliance area could work with us. It seems to me that there are a couple ways we could improve this statute, not just to help facilitate the bank but to protect the public and use it in some way to catch a few more people who are abusing the banking system at the same time that we are trying to facilitate reporting.

Mr. STANKEY. I would like to take this opportunity to expand on my response to your previous question. Assistant Secretary Walker has notified all the bank supervising agencies, the heads of all the agencies, that we're going to review this entire area; and he would appreciate it if they would nominate people to work with his office in reviewing such things as the exempt list. Much of it, of course, can be done under the present statute without any amendment necessary.

Mr. McCOLLUM. Thank you very much. My time has expired.

Mr. VENTO. Thank you, Mr. Chairman. I think in reference to the last conversation that I'm sure a lot of financial institutions that have found themselves in difficulty would be happy to put this responsibility on the customers. I think that that shift of responsi-

bility is not exactly what the law has in mind. I understand that banks are providing the service and that we can't expect the customers that are using it to understand banking regulations as we do expect bankers. I guess that expectation isn't always fulfilled, as in the case of our witness here this morning.

But on this topic, Mr. Stankey, in 1982 you intensified efforts and began special investigation when you realized there was obviously not good compliance. At that time, you had—is that correct? In 1982 you intensified efforts into investigations that compliance had occurred, and it appeared there was reason to believe there was not good compliance with these cash reporting transactions?

Mr. STANKEY. Yes; our office was responsible for the overall coordination of the implementation of the act. We're not an enforcement arm as such, but what we attempt to do is look at situations that seem to be flagrant. We can't look into every corner. We looked at the figures at that particular time and they indicated that Massachusetts was a very unusual situation.

Mr. VENTO. The point is you didn't communicate this to those institutions where you saw this; in other words, this was not necessarily—you had done communication from 1980. Apparently someone had done communication, or I saw a lot of memos going back and forth between the Comptroller, but at that point—in other words, the remedy wasn't to try and correct that as it were, the remedy was because of the provisions of the law where there is a criminal investigation-type remedy. Is that accurate?

Mr. STANKEY. No; that is not quite accurate, Mr. Congressman. Our function—

Mr. VENTO. If I'm wrong, tell me. I think that that's very important, because that's the impression that one is being given: not only that there was not cooperation, but that there was—I guess the point is if there's more than one signal or a multiple of stimuli coming down on the Bank of Boston and our witness' financial institution here, I think that's important to put on the record.

Mr. STANKEY. Our function is primarily one of a regulatory nature, and the administration of the regulations in every way. What we were attempting to do was to verify or get further information about situations that statistics indicated needed further investigation, and to point the regulatory agencies that had primary responsibility for bank supervision to dig a little deeper, if you will. And then at that point, after they get more specific information, we would know whether there was in fact a violation and the specifics of those violations.

Mr. VENTO. Wouldn't that also have the tendency to alert these financial institutions that they were not complying back in 1983 and that they at that time should have begun to comply if they hadn't? If there was any misunderstanding or changes in the law—it's a confusing business, it's by nature a regulated industry—wouldn't that have that effect? Wouldn't one reasonably assume that it could have had that effect? It obviously didn't, but couldn't it have had that effect?

Mr. STANKEY. That was the primary purpose of all this activity. In addition to notifying the regulatory agencies, we notified every bank in the State.



Mr. VENTO. You didn't crawl into a shell and say, "Now we have you where we want you we're turning this over to the Justice Department; we throw a veil of secrecy around it." It wasn't the regulator that said, "We caught you, we're going to prosecute you to the nth degree of the law"?

Mr. STANKEY. Not at that point.

Mr. VENTO. The grand jury met in 1983, and as happens sometimes the results ended up in headlines in the paper; so that should have been some warning, I would think, Mr. Hamill, that something was going on.

Mr. Hamill, in your testimony, there were two points I want to bring up. One is on page 4 of your testimony. You talk about from the time—it says: "When the 1980 changes became effective, they were routed to the branch division, which for the previous 8 years had been the area of the bank which dealt with the Bank Secrecy Act. From that time forward the branch division complied with the amended regulations through regular updating of the exempt lists and periodic reminders of the importance of full CTR compliance."

Now, who approved of their exempt list? Who approved the Branch Divisions' exempt list?

Mr. HAMILL. The exempt list——

Mr. VENTO. I'm asking who approved it. I know what it is.

Mr. HAMILL. The branch manager at each branch.

Mr. VENTO. Did he send that list to the Treasury, to the Comptroller; how did he verify that particular list?

Mr. HAMILL. It was sent to the branch administration section; and as Mr. Stankey indicated, from 1982 there was a communication with regard to the exempt list, and that exempt list was sent to the Treasury in 1982 pursuant to a letter from the Treasury.

Mr. VENTO. On there he had the banks or didn't have the banks? The banks were absent from there?

Mr. HAMILL. That was just the branch division's.

Mr. VENTO. What was the amount of profit that was made? I notice on page 6 that your total here of the exempt or nonexempt transaction was something like \$160 to \$200 million of transactions. Is that what—I'm reading that correctly for that 5-year period, Mr. Hamill?

Mr. HAMILL. Yes, sir; \$160 million was the total over the 5-year period of the amount of the deposits, and withdrawals of \$33 million.

Mr. VENTO. What was the profit on that? What type of income did you realize? What type of income would you think to realize from that type of activity?

Mr. HAMILL. On an annual basis, about \$33,000.

Mr. VENTO. That's all? I read the entire statement. All I can say is given all the stimuli you had, that three quarters of this statement seems to be putting a sugar coating on cow pies. That's what that appears to me. I think that it's a lapse of responsibility which is significant and serious and I think should not have occurred. Thank you, Mr. Chairman.

Chairman ST GERMAIN. Mr. Roth?

Mr. ROTH. Thank you, Mr. Chairman.

Mr. Hamill, our colleague a little while ago asked a question about substantial bribes could come from organized crime and

could influence people in the banking industry. I wish the problem that we were facing here was a once in a lifetime problem, but I think it's just the tip of the iceberg; I feel it's going to be a recurring theme because of the tremendous amount of money that's involved.

I asked a question yesterday and we got some rhetoric, and again this morning. I don't know if there's an answer, but people like yourself, you are bright people, you must have been saying at sometime recently to yourself, "How are we going to stop employees from being bribed by organized crime?" This is obviously going to happen and I think we in the Congress should take a look at that, and what can we put into a law that would help prevent that?

Mr. HAMILL. Congressman, as I indicated to Congressman McKinney it is a serious problem, one that one has to be alert to. But I would say in this particular situation, the \$161 million deposits and the \$33 million of withdrawals by foreign banks, there is no reason for any individual to have not complied with the law for personal gain and there's no hint of personal gain having been obtained as a result of that on this particular situation with regard to the foreign banks. I recognize the problem that you address in general, and it is one that I think, as an industry, the banking industry has tried to be alert to and tried to address.

Mr. ROTH. The banking industry has tried to be alert, but that's not really going to help us. My question is, as I mentioned before and stated before what should we in the committee be doing? Can we put something into the status that's going to change some of that or is going to help that?

Mr. HAMILL. Congressman, the question of a bribe being offered is a very difficult one to address at best, and I think that to put something into a statute to say that, we already have that in the statute. There are requirements that are in the law now with regard to that, and we have responsibility to report any such violation. I do not think that another regulation with respect to that issue is what is needed; I think vigilance is what is always needed.

Mr. ROTH. That sort of leaves us where we started. We really don't have anything concrete to help us. It's almost like circus candy: You think you have something, and you start looking at it and you don't have anything. I think this is an area where we have to give some more consideration, a great deal more consideration. Do you feel that if we had more banking regulation you would not be in the position you are in today? Do you think regulations could have helped you avert some of the problems you're facing now?

Mr. HAMILL. No, as I indicated earlier I think the regulation is there. I do not think it is the lack of regulation or the excess of regulation. This is a regulation that was on the books and that was missed, so that I do not think any more regulation would have necessarily helped to be able to solve this particular problem.

Mr. ROTH. So if we have enough regulation, maybe we haven't stressed enough policing powers.

Mr. HAMILL. That goes to some of the issues we addressed earlier on some of the bills that have been submitted, that is correct.

Mr. ROTH. You have been in the banking business for approximately how long?

Mr. HAMILL. Approximately 20 years.



Mr. ROTH. There's been a big debate in Congress for a number of years whether we need more or less regulation. What side do you come on; do you think the banking industry needs more regulation?

Mr. HAMILL. No——

Mr. ROTH. Talking about the entire industry, not about the problem.

Mr. HAMILL. No, Congressman, I do not think what is needed is more regulation. I think this particular regulation is applicable not merely to banks, but to a variety of industries. So that the question is not whether this regulation would or would not continue to be in effect; I think it would continue to be in effect, but that should not necessarily impact on the whole issue of bank deregulation as it goes forward over the next few years and has to be addressed by this Congress. That is a very important and real issue that I do not think should be impacted because of this particular regulation.

Mr. ROTH. Mr. Hamill, every good business has an incentive program, and I was wondering, do you have an incentive program for branch officers to bring new customers into the bank?

Mr. HAMILL. No, our branch managers are not rewarded in that fashion; it is a total performance evaluation, which includes all of the matters that they have to deal with in the busy day that they have, and not merely—they are not rewarded merely for bringing in deposits.

Mr. ROTH. Whether they have 1 new customer or 10,000 a year doesn't make any difference really?

Mr. HAMILL. Obviously a branch manager has many responsibilities. Some of them do not have new business responsibilities as such, but rather the responsibility of running the branch well, and the new business may not even come under their wing.

Mr. ROTH. Thank you, Mr. Chairman.

Mr. DOCHOW. I want to thank Congress as a whole for the recent change in 18 U.S.C. 215, the bank bribery statute.

Chairman ST GERMAIN. Mr. Hamill, let me ask you a question. Did your legal department in September 1984 put out a memorandum clarifying the Bank Secrecy Act Amendments of 1980 and the requirements thereof?

Mr. HAMILL. Yes, it did, Mr. Chairman.

Chairman ST GERMAIN. Distributed very widely, a very long two-page list of people within the bank, right?

Mr. HAMILL. That's correct.

Chairman ST GERMAIN. Thank you. Mr. Wortley.

Mr. WORTLEY. Mr. Stankey, you are almost a fixture. I think you've spent almost as much time here in the last 60 days as in your own office.

In a sense I was not too warm to having an application form made out for exemption, I was just going to give you my thoughts on an application form and see what's wrong with this concept. One that would include the name, firm, the officers, controlling parties of a corporation, social security number, address, county of residence, reference to a known financial institution they have done business with. The application might contain a question as to whether the applicant, any officer of that corporation, has ever been convicted of a felony, and if so, give some additional details. It

should have some criminal penalties applied to an applicant filing a false statement and to any employee of a financial institution who knowingly accepts a false statement.

Applications for exemption perhaps being renewed periodically, maybe every 2 years or something like that, or in the case of a change of officers of the controlling corporation, not less than 30 days after the change has been made. Then with this application financial institutions would submit it to the Treasury Department, IRS and the FBI, the DEA and the Justice Department.

Maybe that's too much paperwork but I'll tell you the gravity of the situation we're discussing and the types of unscrupulous characters and what they are doing to society can maybe necessitate a little extra effort in the area of paperwork.

Mr. STANKEY. I don't have any problem with the additional information being made available to the Government in connection with these exemptions. It's just that I don't think it would be advisable to let the banks use that as a crutch; that the responsibility should still remain primarily with the branch—I mean with the bank.

Even today I have calls from the bank saying, so and so wants an exemption from the reporting requirement and my response is well, what do you think of it? It's your customer, you should know, you should vouch for him. If you can't vouch for him you shouldn't be asking for an exemption.

And on rare occasions we even have corporations calling in, you know, and I have to refer them back to the bank. I don't think we want to put ourselves between the customer and the bank. Additional information, great, we can use all the information we can get, but the bank still has the responsibility for approving the exemptions and policing.

Mr. WORTLEY. I think we've seen in the last couple of days that the bank is not doing that job. We listened to the officers yesterday of the First National Bank of Boston tell us they didn't know the family were known criminals; ticked off a list of felonies that they had been convicted of, charges that have been made against them that unfortunately were not proven, but nevertheless, in spite of all the public knowledge of this, officers of the bank are not doing their job and we have to have some safety.

I don't think it's too much to have people make out the application. Sometimes you have to use that technicality to catch somebody, but the way it's going now, there's no clearinghouse out there. If a person is a known criminal, at least known to the FBI or Drug Enforcement Agency, how is the bank supposed to know if it's a matter still under investigation?

Mr. STANKEY. I agree. I think it would be very worthwhile and very helpful.

Mr. WORTLEY. Thanks very much.

Chairman St GERMAIN. Mr. Langdon, you went to Boston when, in March of this year?

Mr. LANGDON. Yes, sir.

Chairman St GERMAIN. Do you ordinarily work the Boston area?

Mr. LANGDON. No.

Chairman St GERMAIN. You went there at whose request?

Mr. LANGDON. The Comptroller.

Chairman St GERMAIN. Where?

Mr. LANGDON. In Massachusetts banks.

Chairman ST GERMAIN. How many institutions?

Mr. LANGDON. I believe seven, sir.

Chairman ST GERMAIN. Would those be the institutions we discussed yesterday with Ms. Wilson?

Mr. LANGDON. Yes, sir.

Chairman ST GERMAIN. And there were letters to the Comptroller's Office?

Mr. LANGDON. Yes

Chairman ST GERMAIN. Was this through an exhaustive thorough version, or using verified procedures and all that?

Mr. LANGDON. Yes, sir

Chairman ST GERMAIN. You have been in the Shawmut?

Mr. LANGDON. Yes, sir.

Chairman ST GERMAIN. Did you talk to their internal auditors?

Mr. LANGDON. Yes, we did.

Chairman ST GERMAIN. How many violations did Shawmut admit to in February of this year?

Mr. LANGDON. I don't believe there was an exact number, but we came up with an estimate of maybe 1,800, something like that.

Chairman ST GERMAIN. That they admitted to or that you—

Mr. LANGDON. No, that they admitted to, I believe.

Chairman ST GERMAIN. They admitted to 1,800 violations.

Mr. LANGDON. I believe that's an estimate we received from Mr. McKinney.

Chairman ST GERMAIN. Their own auditor.

Mr. Hamill, looking at exhibit 47, that's the one I think where Mr. Monoco sent a memorandum around to everybody saying that as a result of the *Rockland Trust* case and complicity there, that your exempt list should be reviewed periodically and then updated. One should also keep in mind that that currency transaction report should be completed if a customer exceeds the dollar limit and also if you are aware of a customer making multiple deposits; right? Shawmut does indeed read the newspapers contrary to some other bankers and banks. When you read this about this particular case, you decided, well, we better take a look at our own shop and see what the situation is; is that not correct?

Mr. HAMILL. Congressman, yes. That is what prompted this memorandum.

Chairman ST GERMAIN. In fact, you even included a *Globe* article, a newspaper article on it. I commend you for that. Your people read the papers. Some bankers in and about Boston don't read the papers.

Now the *Rockland* case, as I recall, basically did not involve anything on full reporting of foreign bank transactions; correct?

Mr. HAMILL. That's correct.

Chairman ST GERMAIN. So then we skip over to 1984, September 20, 1984 and exhibit 48. In this instance, another memo went out to a very extensive list of people—as I asked you earlier, and that's compliance with the Bank Secrecy Act, 31 U.S.C. 5311, which says, as you are no doubt aware, "banks in Massachusetts received fines for failure to comply with the requirements." Was that still referring to *Rockland*? That was September 1984.



Mr. HAMILL. That would have been the same timeframe, Mr. Chairman.

Chairman ST GERMAIN. But we're talking about the Rockland situation again?

Mr. HAMILL. Yes.

Chairman ST GERMAIN. In that instance, operation guidelines for compliance under the Bank Secrecy Act, which were originated by the EPA, were passed out. We made some changes, where appropriate, to reflect current law and regulations. Please review these guidelines carefully. You sent out a legal memorandum to the company, then that was prepared by the legal department, Mr. Keith and Mr. Hurley; right?

Mr. HAMILL. That's correct.

Chairman ST GERMAIN. I mean Mr. Keith Hurley, Jr. and Elizabeth Reefer. Could we have Mr. Hurley talk a little bit? You and Ms. Reefer prepared this memorandum?

Mr. HURLEY. Yes, it was supposed to be an update of the American Bankers Association guidelines issued, I believe initially, in 1974. That is correct.

Chairman ST GERMAIN. Did your legal department prepare it under the direction of yourself and—

Mr. HURLEY. Ms. Reefer prepared it under my direction.

Chairman ST GERMAIN. You reviewed it as well?

Mr. HURLEY. Mr. Chairman, I did the cover memorandum that distributed it and I recall reading it. I understand the point that is being driven at, and there is an incorrect statement in the memorandum with respect to foreign banks.

Chairman ST GERMAIN. It says "Reports are not required of transactions with Federal Reserve banks or Federal Home Loan banks and transactions solely originated by domestic financial institutions or foreign banks."

Mr. HURLEY. That is incorrect. That is in the memorandum.

Chairman ST GERMAIN. So the legal department at Shawmut sent out to everybody, a very extensive list, as I said, and it included some misinformation; right?

Mr. HURLEY. That's correct.

Chairman ST GERMAIN. Yet, it was the currency department that kept the foreign banks on the exempt list? They didn't say they read the memo, but if they read the memo they would have put the seven banks in the category of the eighth bank; right?

Mr. HURLEY. The memorandum, as you pointed out, is incorrect and someone reading that could go away with the impression that foreign banks continued to be exempt.

Chairman ST GERMAIN. That's what I'm saying. If the currency department indeed read the memo, and the legal memoranda—and that's why you sent it, so they would read it; correct?

Mr. HURLEY. That is correct.

Chairman ST GERMAIN. They would have concluded or should have, "Well, we'll take these banks off the list, those seven foreign banks, and put them with that other Canadian bank that's not been on the list."

Mr. HURLEY. Well, I think the impression that the memorandum left, Mr. Chairman, unfortunately, was that the situation, at least with respect to the currency department, had not changed. I do not



think that because of the error in the memorandum that they did not pick up on the 1980 changes.

Chairman ST GERMAIN. You are chief counsel for Shawmut?

Mr. HURLEY. That is correct.

Chairman ST GERMAIN. You don't understand my point that in 1980, the regulations changed and the regulations said you now have to report all transactions with foreign banks. Isn't that what it said?

Mr. HURLEY. It removed foreign banks from being exempt.

Chairman ST GERMAIN. That is right. All right, to put it another way, it said you now have to make reports on transactions with foreign banks; is that not correct?

Mr. HURLEY. That's correct, Mr. Chairman.

Chairman ST GERMAIN. Yet in 1983, they put these foreign banks on an exempt list, seven of them, but left one off. Could you explain why that would happen?

Mr. HURLEY. Well, Mr. Chairman, the list of the currency department was not—we did not review the list of the currency department at the time that this memo was circulated—

Chairman ST GERMAIN. My question is, 1983, and I'm not talking about the memo now, seven banks were put on the exempt list, foreign banks; correct?

Mr. HURLEY. That is correct.

Chairman ST GERMAIN. We have to hear you. Now, one was not put on the exempt list; correct?

Mr. HURLEY. That is correct, Mr. Chairman.

Chairman ST GERMAIN. However, the fact of the matter is, when they put the seven banks on the exempt list, shouldn't they have said to themselves, these should have been on the exempt list since 1980; since they were not on the exempt list since 1980, we should report the transactions between 1980 and 1983 when we put them on the exempt list?

Mr. HURLEY. The communication to the currency department that—

Chairman ST GERMAIN. Which communication?

Mr. HURLEY. When the currency department was informed that its list of customers which had been considered exempt had to be kept in a central location, when that occurred, unfortunately what did not occur at the same time was communication of the substance of the 1980 exemption requirements—that is, that foreign banks no longer were exempt, that the retail customer exemption had been tightened up—that was not communicated to the currency department at that time.

Chairman ST GERMAIN. Did the currency department put the foreign banks on the exempt list in 1983?

Mr. HURLEY. Yes, Mr. Chairman, they did.

Chairman ST GERMAIN. They put seven on and left one off. Why did they leave this one off? Did you ever ask them that?

Mr. HURLEY. I believe the reason for that is that the currency department had been operating under their understanding of the law; that since their customers included foreign banks as well as many other retail businesses which prior to 1980 had been exempt, they considered virtually all their customers to be exempt.

Chairman ST GERMAIN. Why didn't they put the eighth bank on the list?

Mr. HURLEY. I can't answer that, Mr. Chairman.

Chairman ST GERMAIN. Now that eighth bank was not on the list in 1982; right?

Mr. HURLEY. That is correct, Mr. Chairman.

Chairman ST GERMAIN. Therefore, they should have been reporting foreign cash transactions with that foreign bank; right?

Mr. HURLEY. That is correct.

Chairman ST GERMAIN. Did they?

Mr. HURLEY. No, they did not.

Chairman ST GERMAIN. They got maybe double, triple—I don't go to race tracks, but I hear about quinellas, five bets at one shot. They've got a quinella going here. Yes, they do, sir, you can't legally legalize me on that one. Really and truly.

Mr. HURLEY. It is not our view that because the seven foreign banks were on the exempt list that they were not reportable. They were reportable as well.

Chairman ST GERMAIN. They should have been reported. What I'm saying is, even more blatant is the fact that the eighth bank is not on the list and they did not report it. A peculiar situation going on in that department, sir.

Now, on October 3, 1984, subsequent to the legal memorandum going out, there's a memo to Keith Hurley from the vice president saying the bank is in violation of the Bank Secrecy Act; isn't that right? That's exhibit 49.

Mr. HURLEY. I have it.

Chairman ST GERMAIN. That's where Mr. Shea says to you and Ms. Reefer, we are in compliance.

Mr. HURLEY. That is correct.

Chairman ST GERMAIN. December 12, 1984. Now, this is from Ms. Reefer to John Hamill, the president, saying, "We have glad tidings, the month of Christmas is around the corner, and I want you to know we are in compliance. Project has heightened an awareness among all divisions." Correct?

Mr. HURLEY. That's correct.

Chairman ST GERMAIN. You heard Mr. Langdon cite the fact that there were 1,800 violations according to your auditor, Mr. MacKinnon; correct?

Mr. HURLEY. Yes, sir.

Chairman ST GERMAIN. Mr. Hamill.

Mr. HAMILL. That is correct, Mr. Chairman, those were the foreign bank—

Chairman ST GERMAIN. All foreign, nothing but foreign bank transaction violations?

Mr. HAMILL. In exhibit U that has been submitted, we report the foreign bank violations.

Chairman ST GERMAIN. Plus the fact that there were 20 domestic companies on the list that should not have been on there.

Mr. HAMILL. That is correct.

Chairman ST GERMAIN. That's it, just foreign bank transactions and the 20 that shouldn't have been on the list?

Mr. HAMILL. In regard to those 1,800 violations.

Chairman ST GERMAIN. Very good. Now, were going to have a little fun. It's rather odd to see your legal department, yourself, and Mr. Shea and Mr. McKinnon all concerned, starting with the *Rockland* case, about compliance. And lo and behold, the next concern comes—and I give you credit, you read the papers—and again on February 7, lo and behold, there's the story on the Bank of Boston, and the fact that they have big problems. That's when, I guess, you found out, Mr. Hurley, that your legal memorandum was wrong; right? About the foreign banks?

Mr. HURLEY. No, Mr. Chairman, that was not the exact point.

Chairman ST GERMAIN. When did you find out?

Mr. HURLEY. A number of days after that. I cannot remember the exact date when the error in the memorandum was brought to my attention.

Chairman ST GERMAIN. Well, how about Ms. Reefer, when did you tell her that the bank was in noncompliance?

Mr. HURLEY. I brought it to her attention.

Chairman ST GERMAIN. Mr. MacKinnon; did he bring it to your attention, or you to his attention?

Mr. HURLEY. It was brought to my attention by Mr. Dean, who is in the operations area.

Chairman ST GERMAIN. What was his source of information?

Mr. HURLEY. What was his source of information?

Chairman ST GERMAIN. Was it from reading the newspaper article or watching the television set about Bank of Boston?

Mr. HURLEY. No—

Chairman ST GERMAIN. What I'm trying to determine is did you find out you were in violation because all of a sudden the Holy Ghost came down and imparted knowledge to someone in your institution? Or was it the result of the Bank of Boston being fined because they didn't report cash transactions with foreign banks?

Mr. HURLEY. If I can give the sequence of events which indicated what my awareness of the situation was; that is, in mid-December, there was a meeting held to discuss it. It was part of an ongoing process to come up with a system that would track large foreign currency transactions and insure that reports were filed. That was a project that had been ongoing since before the *Rockland Trust* situation.

Chairman ST GERMAIN. And that reports would be filed?

Mr. HURLEY. Yes, Mr. Chairman.

Chairman ST GERMAIN. What kind of reports?

Mr. HURLEY. CTR reports.

Chairman ST GERMAIN. Those that you didn't file?

Mr. HURLEY. This was to verify, to insure that our compliance, which at that time we considered to be good, would continue to be good.

Chairman ST GERMAIN. When did you find out that you were supposed to report all cash transactions with foreign banks? December 1984?

Mr. HURLEY. I believe it was February 7 or February 8.

Chairman ST GERMAIN. Oh, you're talking about December here—

Mr. HURLEY. Mr. Chairman, there was a meeting held in December. You are getting at my state of mind and I am trying to give



you that. In December, at a meeting, there was a brief conversation at which it was related that we had cash transactions with foreign banks. I asked the individual who made that statement whether a report had been filed.

Chairman ST GERMAIN. Why did you ask that question?

Mr. HURLEY. Because there was a cash transaction.

Chairman ST GERMAIN. However, in the Shawmut Bank, they were not aware of the fact on February 15 or 19 that they were supposed to file reports on those. You knew that they should be filing reports.

Mr. HURLEY. If I may finish, the reply to my question was that the foreign banks were exempt. At that time, the entire discussion took approximately a half minute, as have related with your staff. I did not follow up on it. There is——

Chairman ST GERMAIN. Who—in the legal department told you this?

Mr. HURLEY. No; it was Mr. Dean, who I referred to earlier.

Chairman ST GERMAIN. What's his position?

Mr. HURLEY. Senior vice president.

Chairman ST GERMAIN. In charge of——

Mr. HURLEY. Operations.

Chairman ST GERMAIN. So he was the one who interpreted the regulation to you?

Mr. HURLEY. That is correct. Let me—may I continue, Mr. Chairman?

Chairman ST GERMAIN. Yes.

Mr. HURLEY. There is in the regulations a provision that says that the bank may apply for a specific exemption for a customer that does not otherwise meet the regulatory requirements. Now, what I assumed at the time was that what he was talking about was that an application had been applied for and permission had been granted. I was wrong. I did not realize that until February 7 when the Bank of Boston matter became public and we looked into it further. And at that time I asked—as I should have done on December 15—I asked for a copy of the Treasury Department letter approving the application for exemption, and I was told that no application had been filed, and at that point it became apparent to me that we had a problem.

Chairman ST GERMAIN. Mr. Hurley, it took a long time for you to agree with the question I asked you 5 or 10 questions back when I asked: Was it as a result of the Bank of Boston publicity on February 7 that you found out that you were in noncompliance? At which time you said, "No," but now you're telling me that on February 7 you became aware of the Bank of Boston's violation and noncompliance by not reporting cash transactions of foreign banks and that's when you looked for a letter OK'ing or approving the exemption. So that was the catalyst that set off this new review by Shawmut, beginning on February 7?

Mr. HURLEY. That's correct.

Chairman ST GERMAIN. As a result of that review, the letter went to the Comptroller of the Currency and to John Walker, in Treasury. Let me ask you this, sir: Was Shawmut aware of the fact that the regulations require a record of each exemption granted and the merit, and reason therefore, must be made at the time it is



granted? Furthermore, that all such exemptions must be kept in a centralized list? Were you aware of that?

Mr. HURLEY. At that point in time?

Chairman ST GERMAIN. I don't know when. The point is Mr. Ziegler stated that when he looked at the exempt list, he had a half a list. Right, Mr. Ziegler? In 1983?

Mr. ZIEGLER. At the time, I was under the assumption it was a complete listing.

Chairman ST GERMAIN. If it had been a centralized list, it would have been a complete listing. Were you aware of the requirement for a centralized list?

Mr. ZIEGLER. Yes, I was.

Chairman ST GERMAIN. You had no reason to say that there were any others, because it was supposed to be a centralized list. I don't know if that's a violation of the regulations of the act or not, but so prior to this wonderful letter from Shawmut to Mr. Walker, the principal focus of the review was a CTR exempt list. That review began on February 7. Prior reviews of the bank's CTR program, by the bank's internal auditors and bank examiners, had revealed no significant compliance deficiency. The examiners didn't see the complete list; did they, Mr. Hamill?

Mr. HAMILL. Mr. Chairman, as I mentioned in my opening statement and earlier, there were 2 years involved here: 1983, when the currency department compiled its list and provided it to the branch division so that it could be in one place—we had been asked for the list, the exempt list. It was our belief that that list was provided to the comptroller in the examination of 1983, and—

Chairman ST GERMAIN. You now know that wasn't the case.

Mr. HAMILL. What we are still not clear about is this: We know in 1984 the same request came and we did provide both lists and both lists are in the—

Chairman ST GERMAIN. That's when you centralized it, in 1984; right?

Mr. HAMILL. We centralized it in 1983 and the request came from—

Chairman ST GERMAIN. The Comptroller is lying, you mean.

Mr. HAMILL. No, sir.

Chairman ST GERMAIN. You can't have it both ways: Either you had a centralized list that Mr. Ziegler saw or you did not have a centralized list and Mr. Ziegler did not see an exempt list that contained, and had in it, the foreign banks, the airline companies and all the others.

Mr. HAMILL. We are not saying that the Comptroller is lying. All I am pointing out is that our list came together in one place. Those documents were requested by the Comptroller's Office pursuant to their examination in 1983. They were given over to the Comptroller. We may have inadvertently not given them the list for the Coin and Currency Department. In 1984, in the same set of circumstances, we provided the exemption list and the coin and currency department list was with that of the branch division.

Chairman ST GERMAIN. In 1984—we are not talking about the fact that this happened—it was February 14th that Ms. McCarthy saw the list?

Mr. GUSMINI. She saw the list prior to February 14.

Chairman ST GERMAIN. When did she see it?

Mr. GUSMINI. As I said, I believe it was earlier in the second week of February.

Chairman ST GERMAIN. The second week of February? What's the date? Dates are important here. Remember you said it was not a full workday or something like that—you called for an appointment?

Mr. GUSMINI. That was the 14th that we called for an appointment. She had been working on that program from, probably, February 7 if that is the Monday of the second week in February.

Chairman ST GERMAIN. February 7 is the date the Bank of Boston held a press briefing. Fact of the matter is, in 1983 Mr. Ziegler said he had not seen the entire list. So when you put in that that the examiners missed it as well, I don't think that helps very much, because the examiners can't miss what they are not provided.

Mr. HAMILL. Mr. Chairman, I do not dispute the truthfulness at all of Mr. Ziegler's statement; I am merely describing to you the process that went on, and it was our belief until we were told by the Comptroller's office that they could not find the 1983 currency department list in their files. We were then apprised of the fact that it may not have gotten to them. So we can understand that it may not have happened in 1983, but we thought that it did; and when we wrote that letter, that is what we believed.

Chairman ST GERMAIN. Did you look at that list? Did you get a complete list and then just fail to note that there were foreign banks on the exempt list?

Mr. ZIEGLER. Foreign banks are not permissible on the exempt list, so not seeing them—

Chairman ST GERMAIN. My point is that that's another way of saying, here we will give you one more whack at this? Did you, or did you not see the exempt list, that contained the foreign banks?

Mr. ZIEGLER. No; I did not.

Chairman ST GERMAIN. Then the letter says: "We concluded by Wednesday, February 13 the overall level of the bank's compliance was good." Then we go to page 2, "Shawmut maintains a centralized exempt list of customers with whom it engages in cash deposit and withdrawal transactions on a routine basis. This satisfies the requirements of CTR regs." So, that's a centralized list, sometime in 1984; right? When was the list for exemptions centralized?

Mr. HAMILL. It was centralized in 1983 and it continued to be centralized in 1984.

Chairman ST GERMAIN. Now the next sentence, "These exempt lists were routinely provided to the national bank examiners in their annual examination of the bank." That's not quite accurate; is it?

Mr. HAMILL. At the time we wrote that letter we believed that in the latter part of 1983, pursuant to the request by the Comptroller's Office, that we had provided the total list—that is, both the coin and currency and the branch list—because those lists had come together earlier.

Chairman ST GERMAIN. You believed that. How about in 1982?

Mr. HAMILL. No; because the first time the exempt list was prepared by the currency department was in 1983; so that in 1982 it was only the branch division list that had an exempt list.

Chairman ST GERMAIN. Now, the page before the last page: "In 1980 the Treasury amended the CTR regulations. The city division recognized the general significance of this amendment for the branches and from the outset diligently pursued branch compliance with the amended regs. The operations division, however, did not immediately recognize the significance of the 1980 amendments to its operation, and circumstances were such that their full significance was not fully appreciated until the commencement of the review reported in this letter." That's the February 7, 1985 letter.

Then we go down to: "The operation division situation remained unchanged until 1983 when the bank's internal audit division was directed to forward a list to the city division to satisfy requirements that all exempt lists be maintained in a central location. As these lists were provided to the national bank examiner in connection with the bank's 1983 examination, and an updated list was provided to the examiner in 1984 without adverse comment."

So, Mr. Ziegler, what they were telling Mr. Walker is again in this same letter. They conclude the letter by saying, "Aha, maybe we forget, but so did Mr. Ziegler." Isn't that what this says?

Mr. ZIEGLER. Yes, Mr. Chairman.

Chairman ST GERMAIN. What's your reaction to that?

Mr. ZIEGLER. My reaction is that I asked for a list that was required to be centralized, so I was assuming I had the complete list.

Chairman ST GERMAIN. Mr. Goldberg, you were Mr. Ziegler's superior during this examination?

Mr. GOLDBERG. Yes.

Chairman ST GERMAIN. What's your reaction to the fact that the bank was saying, "Aha, the examiners got the list and they didn't have any adverse comment?"

Mr. GOLDBERG. I have no reason to disbelieve Mr. Ziegler. I've looked at the work papers and the only list was from the branch division.

Chairman ST GERMAIN. The other division did not provide it, and since it was from the branch division that means there was not a central list.

Mr. GOLDBERG. Correct.

Chairman ST GERMAIN. These exempt lists were routinely provided to the bank examiners. No objection was raised by the examiners. It was reasonable for the bank to assume, therefore, that they were in conformance with the regulations. Compliance is delegated to the Comptroller of the Currency. Mr. Dochow, what's your reaction to this?

Mr. DOCHOW. I think as we've heard earlier today in testimony that the responsibilities lie with both parties, both the banks and the Department of the Treasury.

Chairman ST GERMAIN. My reaction to this letter, Mr. Hamill, is that, well, I'm looking at the dates too. In February somebody blew the whistle on the Bank of Boston. It's found that they had people on the list, or rather they didn't, for foreign cash transactions. So then Shawmut looks and says, "Aha, we haven't been doing it either, so we prepared this letter to Mr. Walker." But the letter is



replete with references to the fact that "Gee, maybe we didn't do it, but gosh darn it, the Comptroller's office should have told us." Isn't that what the letter says, about two or three times?

Mr. HAMILL. I think that is a reading of it. But if I might, the letter is addressed not only to Mr. Walker but also to Mr. Taylor. We met with Mr. Taylor on the morning of the 19th and met with Mr. Stankey in the afternoon of the 19th, and delivered that letter. We were not trying to send a message to Mr. Walker without telling the comptroller's office. Our position is quite clearly not that we're trying to shift blame to the Comptroller—I have acknowledged our mistake—but rather merely to say that we were not trying to hide anything—that we were asked for the exempt list. We did indeed centralize the exempt list in 1983. It is unfortunate that it did not in the transmittal get to the Comptroller's office in 1983. It did get to the Comptroller's office in 1984. It goes to the question that we were trying to be as open in this process as possible, not trying to shift blame to the Comptroller's Office.

Chairman ST GERMAIN. Mr. Wylie.

Mr. WYLIE. Thank you, Mr. Chairman. There's necessarily a lot of repetition in the questions, and I know that it gets a little trying perhaps, but we need to know what's happened in the breakdown of compliance with the Bank Secrecy Act.

Isn't it fair to say that criminals do have to have access to our banking system if they are to be successful to a large degree; would that be a fair statement, Mr. Stankey?

Mr. STANKEY. Yes, I agree with that.

Mr. WYLIE. And that's basically true in the case of drug money laundering?

Mr. STANKEY. Yes, sir.

Mr. WYLIE. So we do have a very serious situation here. We had situations where vending machine companies showed up on exempt lists, and traditionally vending machine companies have been a favorite of the criminal element. But Mr. Hamill, in establishing an exempt list, someone in a bank has to make a determination; there has to be a judgment factor involved as to who does or does not make the exempt list. You may have been asked this while I was out, but how is that done?

Mr. HAMILL. Congressman, we have that done by the branch manager. We believe he or she is the person who knows the customer best. We have augmented that, however, to go one step further, and now before a customer is to be put on the exempt list a form must be filled out by the branch manager and forwarded to the legal department for further review to make sure there are no technical problems with regard to that matter.

Mr. WYLIE. The legal department does review it so there's a two-step procedure. Was that true before?

Mr. HAMILL. No; and we have instituted that now. I think the President's Commission points to the branch manager who really is the key individual in preparation of the exempt list and knowing the customer. But we have gone this one extra step to try to assist the branch manager in that regard.

Mr. WYLIE. That's quite a responsibility that the branch manager has, obviously, and so I would assume that there is some training procedure going on now to help show that branch manager what



he should look for in the way of background checks and so forth. Is that fair to say?

Mr. HAMILL. As a matter of policy that is fair to say. And there are procedures by which we've attempted to update compliance with the Bank Secrecy Act. We have gone ahead and instituted training programs to assure that the education process continues.

Mr. WYLIE. Is my understanding here correct that once an entity or individual makes this exempt list with your bank, then they are exempted up to a certain amount?

Mr. HAMILL. Generally, the requirement is that you put on the exempt list a dollar amount that would be normally associated with a deposit or withdrawal, and that generally becomes the standard used for that customer's transactions.

Mr. WYLIE. That list is associated with the amount of deposits or withdrawal?

Mr. HAMILL. Either deposit or withdrawal, but it is really driven by the business of the customer; and if it is a retailer who sells goods, there is the general requirement that allows that customer to be on the exempt list. As you have mentioned, however, there are a number of other individual situations, such as vending machine companies, racetracks, amusement parks and others that are specifically allowed to be on the exempt list in addition to the retailers who sell goods.

Mr. WYLIE. Vending machine companies are specifically allowed to be on the exempt list by law?

Mr. HAMILL. Yes, sir.

Mr. STANKEY. If I may. The bank is permitted to put them on the exempt list. It isn't that they are automatically on the exempt list. The bank still has the responsibility for knowing its customer, knowing that the currency is from a lawful, legitimate activity of that customer.

Mr. WYLIE. Who makes up the list of entities that may be placed on the exempt list?

Mr. STANKEY. I think that those specific exemptions were developed within our office. I don't know that there's any one individual.

Mr. WYLIE. Well, how does a vending machine company and a racetrack get on an exempt list automatically? Somebody makes a judgment to put them on?

Mr. STANKEY. The bank has to make a judgment that they are able to vouch for these businesses, that they are legitimate businesses; and if they can't vouch for them they shouldn't put them on the list.

Mr. WYLIE. Is there a check list of entities that may be placed on the exempt list?

Mr. STANKEY. The bank has to vouch for every entity on that list except other banks.

Mr. WYLIE. John, you just indicated that there was a list——

Mr. HAMILL. The thrust of the question is perhaps why is it that a vending machine company, at least at first instance, has the right to be put on the list? Obviously you have to check the customer and know your customer, but that is true of every customer; and I guess the question you are asking is why should not then perhaps a law firm should not also be allowed to be put on the exempt list.

But by definition a law firm cannot be on the exempt list even if you vouch for him as a good customer.

Mr. STANKEY. Would you like me to respond to that? The reason is that it's highly unusual for law firms to be dealing in large amounts of currency, so they are not going to be permitted on an exempt list. That's not at all the case with respect to racetracks or vending machine companies, and I think there are probably many racetracks and vending machine companies that are entirely legitimate and there is no reason to suspect their transactions in large amounts of currency. If you have large amounts of currency going through a law firm's account, then I think that's rather suspect.

Mr. WYLIE. Not if it comes through a vending machine company or a racetrack?

Mr. STANKEY. Not automatically.

Mr. HAMILL. I agree with Mr. Stankey. Not necessarily is any customer by definition suspect. I think the question you are getting to is why the distinctions, and Mr. Stankey has answered the question at least with regard to law firms and other entities. The reason that we have asked that the legal department review this issue is that it is not intuitive to a branch manager as to the kind of customer who can be placed on the list, just because of this dialog that we have had now. That is all.

The suggestion was made earlier as to whether exempt lists should be maintained at all, and at this point in time, we think that we can live with the regulation as it is drafted. It just means that we have to be more vigilant making sure the branch manager understands it completely.

Mr. WYLIE. Do you think we need an exempt list?

Mr. HAMILL. That goes to the question—a couple of questions. If there were not an exempt list, it would mean that every cash transaction between banks in the United States would probably have to be reported. If it were merely an over \$10,000 rule, that would clog up a lot of computer time, so I think an exempt list makes sense.

Mr. VENTO. The point is those are exceptions. That's not part of the exempt list. You don't have to put them on. They are exceptions in the regulation. There's no list maintained for them. So I think that the gentleman's question is exclusive of those he's talking about the exempt list. Isn't that the question you asked, Mr. Wylie?

Mr. HAMILL. I understand you, Congressman. I was talking aside from those, I think it makes some sense to have an exempt list.

Mr. WYLIE. I wasn't including them on an exempt list, of course.

Mr. HAMILL. We thought about this. At this point in time I would say "yes," I think it makes sense to have an exempt list because I think there are customers who need not be reported with regard to their transactions.

Mr. WYLIE. Once a customer is on an exempt list and somebody makes a determination as to how much that customer can use, the amount that that customer can have in transactions and still be on the exempt list—in other words, you can set the figure at \$100,000 or \$1 million or \$2 million?

Mr. HAMILL. It should be set in a range that is customary with regard to the customer's business. If that happened to be the case, you could, but that would be an unusual situation.

Chairman ST GERMAIN. What about a limiting amount that can be put on the exempt list?

Mr. HAMILL. Given the fact that there are instances of transactions under \$10,000 where there appear to be violations because of multiple transactions, I am not sure that limiting the amount would get to the issue you are trying to get to. It is a complicated problem, and we have been wrestling with it and I can see you have also.

Mr. WYLIE. Indeed, the Comptroller said yesterday what we have to have if we are going to get the kind of help we need is some kind of internal compliance or a central compliance officer in the institution. What would you say to that?

Mr. HAMILL. I think that is correct. I think that compliance internally is a shared responsibility with respect to compliance, and we have the responsibility to have our compliance program able to catch regulations that are amended or come out.

Mr. WYLIE. What would you think, Mr. Stankey, about if we required by law that this exempt list was shared with the Justice Department?

Mr. STANKEY. I personally don't know what the ramifications of that would be.

Mr. WYLIE. Just a cross-check with somebody who has an atunement to looking for criminal activity?

Mr. STANKEY. That's a possibility that that could be helpful. There are other things that I would like to see done with the exempt list too, obviously one thing would be to computerize it, I think, and to cross reference them.

Mr. WYLIE. Like a drop of mercury, every time you think you have an answer it goes away.

Mr. STANKEY. I wonder if we made the exempt list available to the Department of Justice whether they would be in a position to review it indepth and what would happen. What we really need is to be able to cumulate all the exempt lists and see if company A is on bank B's list and also on bank C's list and on bank D's list.

Mr. WYLIE. Why can't they computerize the list so that it wouldn't mean all that much paperwork?

Mr. STANKEY. It's under discussion in the Department. Of course the ramifications are that it would require additional resources.

Chairman ST GERMAIN. Mr. Vento.

Mr. VENTO. I can't believe, Mr. Chairman, that it's not computerized. That just boggles the mind. I can scarcely believe that, but I guess that's the nature. Maybe there are other reasons for not computerizing it.

But I guess the other question I have is there's one thing that bothered me, Mr. Goldberg, during the chairman's questions. Maybe I missed it, but the idea of centralizing a list is only part of the law and when Mr. Ziegler looked at it and realized that they had a report that was only from a branch, that would seem to indicate that—I mean if you were looking for problems, that maybe there was something missing because only one branch had a report



or it didn't come from the central bank. How would you respond to that type of reasoning, Mr. Ziegler or Mr. Goldberg?

Mr. GOLDBERG. The list they got was I think at least 29 or 30 pages long, one page for each branch, and contained in excess of 50 names on the listing. Mr. Hamill said there were 100——

Mr. VENTO. Your point is it would not indicate to you that it wasn't centralized? There seemed to be a loose end there.

Mr. GOLDBERG. It all came from the same source; the same person compiled this list and delivered it to us.

Mr. VENTO. I don't know if you're the right person to ask with regard to this, but that gave you some impetus to try and bring it in compliance. The idea wasn't necessarily to go out and say "We've violated the law, we're going to go to the Justice Department with this," the idea there, based on what the Treasury's letter said, was to bring about compliance. The remedy was compliance. I want to know specifically what the Comptroller of the Currency did and later the Federal Reserve Board did to in fact try to bring about compliance with this reporting requirement of the CTR. Mr. Goldberg, would you like to try and answer that? What did you do at the ground level in terms of that compliance? How did that translate through?

Mr. GOLDBERG. As I recall, the memo was sent to us in September 1982 and the subsequent examination to that didn't commence until December 1983. In that period of time I had received no subsequent communications regarding that subject, so therefore I believe our response to that was to perform my normal examination procedures in that area and that was Mr. Ziegler's responsibility during that examination.

Mr. VENTO. In spite of the fact that the Treasury had sent the memo to the Comptroller of the Currency outlining the fact that there was substantial noncompliance of this particular provision of the law, that it didn't translate into any on-the-ground type of stimulus to these institutions that there was something amiss? In other words, you did nothing special except conduct the normal examination in December 1983?

Mr. GOLDBERG. Quite a period of time had elapsed and nothing had come to any attention from any source to indicate any other problems in that regard.

Mr. VENTO. Did you make any special effort to determine whether there were any special problems? You received a letter from Treasury which was apparently copied and carried with you throughout the Comptroller of the Currency's Office.

Mr. GOLDBERG. I don't recall having seen that particular memo during the course of the Shawmut examination. Not to say it wasn't there.

Mr. VENTO. Mr. Dochow, was there any special emphasis made when the Treasury Department informed you that there was substantial noncompliance, at least appeared to be, based on Federal Reserve Board records, in terms of cash?

Mr. DOCHOW. Let me back up and try to clarify the situation. By way of background, it was in June 1982 when two of our examiners went to the Federal Reserve to reconcile the cash shipments from Bank of Boston and various Massachusetts banks.



It was subsequent to that that Treasury looked at information we helped develop together with information they had on the number of CTR filings within the State. They then sent us, as well as the FDIC and the Federal Reserve, essentially an identical letter detailing the nine national banks that we had, the nine FDIC banks, and the two that the Federal Reserve Board had, saying that there was apparently a large volume of cash transactions in relation to a low number of filings.

That memorandum in the case of Shawmut and the other bank examinations was placed in a correspondence file. We said in our testimony yesterday that as a result of that, we had discussions with people at Treasury. We discussed what we would do in those examinations. We then came back and sent Treasury the results of the first of the enhanced procedures on reconciliation of the cash, and at that time reported back that we would give Treasury the other feedback through normal channels. Those are reports which we issue on a regular basis which contain violations of 31 CFR 103 by an institution. We admitted that we did not do verification procedures at Shawmut as Treasury may have thought we should have.

Mr. VENTO. It's very frustrating. Obviously there are all sorts of stimuli going on. Mr. Stankey, do you agree?

Mr. STANKEY. No, I don't, Mr. Congressman. I think we should set the record straight. In June 1982 our office determined that additional work should be done in the Massachusetts area and our office went up to the Federal Reserve Bank and surveyed it to see what records would be available for us to do the analysis. We solicited assistance from the Comptroller of the Currency and the IRS. People from the Comptroller and the IRS under the supervision of a person from our office conducted the analysis at the Federal Bank in Boston and then after we accumulated the information it was made available to the various bank supervisor agencies, including the Comptroller's Office. We expected that there would be some fairly prompt action taken in examining the banks. We didn't envision waiting 15 months for review.

Mr. VENTO. I regret I wasn't here personally yesterday to question Mr. Connors. I just think it does point out the comments of my colleague from Louisiana with regards to reluctant regulators. And I'm sure that the intentions were good. I think the result, by the time it was translated through some of the banks that should know better on their own without you telling them ended up being much—

Mr. DOCHOW. We agree we could have done better and we've set forth six points that we hope will lead to better compliance in the future.

Chairman ST GERMAIN. We kept it to about 7:30 last night. Mr. Langdon, in your examination with the special team at the Shawmut Bank, did you come up with anything new that we haven't heard about.

Mr. LANGDON. I completed about 2 weeks of an estimated 3½ week job and then my examination was terminated. I took these preliminary views and I set them forth in a letter to the Comptroller of the Currency.

Mr. DOCHOW. I might point out, Mr. Chairman, that we were asked by Treasury—

Chairman ST GERMAIN. To get out? But my question isn't that. My question, again, is—and I can't see any problem with answering—did you find any noncompliance over and above that which has been mentioned here this morning by Mr. Hamill or Mr. Hurley?

Mr. LANGDON. Yes, I did.

Chairman ST GERMAIN. I'll ask the legal counsel for the Comptroller—am I allowed to go one step further?

Mr. LUKE. It's in this area that the U.S. attorney was concerned.

Chairman ST GERMAIN. Did it have to do with more on the exempt list?

Mr. LANGDON. There was a problem with the exempt list, yes, sir.

Chairman ST GERMAIN. Other than that which has been cited today?

Mr. LANGDON. Yes, sir.

Chairman ST GERMAIN. We'll just have to wait for an exciting—like when I was a kid on Saturday and used to watch the cowboy movies—you have to wait for next Saturday for the next exciting episode. Mr. Hamill.

Mr. HAMILL. Mr. Chairman, I would like to make it clear for the record this is the first time that we are being told that there was a violation, that we have not been told before and we have no idea of—

Chairman ST GERMAIN. I told you about one this morning that you didn't know that is, the requirement for a centralized list ever since 1980.

Mr. HAMILL. As I mentioned, we brought those lists together in 1983.

Chairman ST GERMAIN. But 1980 to 1983—

Mr. HAMILL. I am just addressing this. I would like to make it clear. We do not know what those violations are, if there are violations, if there is an answer to them, and I would merely say that given the fact that this is the first time we are hearing that there is an allegation of violations or further violations—

Chairman ST GERMAIN. Why don't we say "possibility." Let me ask you this: Does Shawmut have any affiliates or subsidiaries that have any Edge Act?

Mr. HAMILL. Yes, we do.

Chairman ST GERMAIN. Where is it located?

Mr. HAMILL. In Miami.

Chairman ST GERMAIN. Have you reviewed your Edge Act affiliate for compliance?

Mr. HAMILL. Yes.

Chairman ST GERMAIN. No violations there, no foreign bank cash transactions?

Mr. HAMILL. No foreign bank cash transactions that needed to be reported.

Chairman ST GERMAIN. Thank you. Mr. Hamill. Mr. Hurley, we thank you. We may well have additional questions in writing for you. You may want to sit around for a few more minutes. We have not heard from the Federal Reserve. Now, that's big time.

Mr. HAMILL. Thank you, Mr. Chairman.

[Witnesses sworn.]

Chairman ST GERMAIN. I would state at this point that we had notice of this hearing for quite a period of time. We always have this running thing with the Fed, coming up with testimony at the last minute. The testimony was due 24 hours ahead of time. Testimony did not arrive until 4 yesterday afternoon. Golly, I wish we could do better. Testimony isn't that monumental. It's not that exciting. Nothing secretive about it. Apologizing doesn't change anything. Members would like to see it ahead of time. It's so staff members may review the testimony.

Mr. PARTEE. I agree, Mr. Chairman. I don't know any of the background. I didn't learn about this until Friday myself. The testimony we have, let me point out on behalf of Mr. Allison, is quite brief and it's on the technical question raised in the beginning of this hearing.

Chairman ST GERMAIN. We're going to place the prepared statement of Mr. Allison in the record at this point and start the questioning process now.

[The prepared statement of Theodore E. Allison on behalf of the Board of Governors of the Federal Reserve System follows:]



STATEMENT BY THEODORE E. ALLISON, STAFF DIRECTOR FOR FEDERAL RESERVE BANK  
ACTIVITIES, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

MR. CHAIRMAN I WOULD LIKE TO DISCUSS BRIEFLY THE FEDERAL RESERVE'S ROLE IN SUPPLYING CASH TO AND ACCEPTING CASH FROM DEPOSITORY INSTITUTIONS. THEN, I WILL ADDRESS OUR RECORD OF COMMITMENT IN SUPPORTING GOVERNMENT AGENCIES THAT ARE USING CURRENCY DATA TO INVESTIGATE CRIMINAL ACTIVITY.

THE FEDERAL RESERVE IS RESPONSIBLE FOR MEETING THE PUBLIC'S DEMAND FOR CURRENCY. LIKEWISE, THERE IS ALSO A RESPONSIBILITY FOR THE FEDERAL RESERVE TO TAKE BACK CURRENCY WHEN THE PUBLIC DEMAND DECREASES SUFFICIENTLY SO THAT DEPOSITORY INSTITUTIONS HAVE EXCESS INVENTORIES. DURING THE CALENDAR YEAR 1984, \$170 BILLION WAS RECEIVED BY FEDERAL RESERVE BANKS FROM DEPOSITORY INSTITUTIONS AND \$181 BILLION IN CURRENCY WAS PAID TO DEPOSITORY INSTITUTIONS.

YEARLY, EACH FEDERAL RESERVE DISTRICT SUBMITS AN ORDER TO THE BOARD FOR THE ESTIMATED AMOUNT OF NOTES REQUIRED TO MEET THE EXPECTED DEMAND DURING THE FOLLOWING YEAR. THE ORDERS ARE CAREFULLY ANALYZED BY BOARD STAFF TO DETERMINE POTENTIAL CHANGES IN DEMAND OVER THE PREVIOUS YEAR. SUBSEQUENTLY, A PRINTING ORDER IS SUBMITTED TO THE BUREAU OF ENGRAVING AND PRINTING. BASED ON THIS ORDER, THE BUREAU ESTABLISHES A PRODUCTION SCHEDULE FOR THE YEAR.

DURING THE 1970's, THE BUREAU WAS PRODUCING CURRENCY AT ITS MAXIMUM CAPACITY LEVEL. THEREFORE, A CONTINUING CONCERN WAS WHETHER THERE WAS A SUFFICIENT AMOUNT OF NEW NOTES AVAILABLE TO MEET THE DEMAND. IN ORDER TO DETERMINE THE SCOPE OF THE DEMAND, BOARD STAFF WOULD FREQUENTLY QUESTION THE FEDERAL RESERVE BANKS ON THEIR NEED FOR AN INCREASE IN THEIR PRINTING ORDER. FOR EXAMPLE, WHEN THE FEDERAL RESERVE BANK OF BOSTON WAS ASKED DURING THIS PERIOD ABOUT AN INCREASE IN DEMAND FOR \$100 NOTES, THE EXPLANATION RECEIVED



WAS THAT THE FIRST NATIONAL BANK OF BOSTON NEEDED THE NOTES TO MEET A REQUEST FOR LARGE BILLS BY FOREIGN BANKS THAT HISTORICALLY HAD RECEIVED THEIR CURRENCY FROM NEW YORK BANKS. BOARD STAFF DETERMINED THAT THE NUMBER OF NOTES NEEDED TO MEET THE ADDITIONAL DEMAND WOULD NOT EXCESSIVELY STRAIN THE NEW NOTE INVENTORY LEVELS AND COULD BE MET BY SHIPPING NOTES PRINTED FOR OTHER FEDERAL RESERVE BANKS TO THE FEDERAL RESERVE BANK OF BOSTON.

IT SHOULD BE NOTED THAT THERE HAS LONG BEEN A DEMAND FOR U.S. CURRENCY BY RESIDENTS OF FOREIGN COUNTRIES FOR A VARIETY OF REASONS, INCLUDING ECONOMIC OR POLITICAL DIFFICULTIES THAT THEIR COUNTRIES MAY BE EXPERIENCING. INDEED, ONCE THE RESIDENTS OF A COUNTRY BEGIN TO HOLD U.S. CURRENCY AS A HEDGE AGAINST THESE UNCERTAINTIES, THE DEMAND FOR CURRENCY CAN MULTIPLY AS IT BECOMES MORE READILY TRANSFERABLE TO OTHERS LOCALLY IN EXCHANGE FOR GOODS AND SERVICES. THESE FACTORS HAVE AT TIMES LED TO SIGNIFICANT CURRENCY OUTFLOWS FROM THE UNITED STATES.

THIS FOREIGN DEMAND FOR CURRENCY HAS TRADITIONALLY BEEN MET THROUGH PRIVATE COMMERCIAL BANKING CHANNELS. FOREIGN BANKS HAVE TYPICALLY PLACED CURRENCY ORDERS WITH U.S. COMMERCIAL BANKS THAT IN TURN SHIP AND RECEIVE CURRENCY AS PART OF THEIR NORMAL CORRESPONDENT BANKING SERVICES.

MODEST LEVELS OF CURRENCY INFLOWS INTO THE UNITED STATES ARE ALSO COMMONPLACE. THESE FLOWS ARE OFTEN ASSOCIATED WITH COUNTRIES THAT CATER TO THE AMERICAN TOURIST TRADE. OTHER INFLOWS APPEAR TO BE RELATED TO SUCCESSFUL EXCHANGE RATE STRATEGIES, THAT LEAD FOREIGN RESIDENTS WHO HAD USED U.S. CURRENCY TO HEDGE AGAINST DEVALUATION RISKS TO RETURN TO THE USE OF LOCAL CURRENCIES. THERE ARE ALSO MODEST INFLOWS ASSOCIATED WITH THE NORMAL

SERVICING OF THE MONEY STOCK IN COUNTRIES WHERE THE U.S. DOLLAR IS A PRINCIPLE CIRCULATING CURRENCY OF EXCHANGE.

THE FEDERAL RESERVE'S INTEREST IN CASH DOES NOT END WITH THE PROVISION OF CURRENCY. THE RESERVE BANKS' EXAMINATION DIVISIONS MONITOR STATE MEMBER BANKS AND EDGE ACT CORPORATIONS FOR COMPLIANCE WITH GOVERNMENT REGULATIONS SUCH AS THE BANK SECRECY ACT. THE FEDERAL RESERVE'S RESEARCH STAFF DEVELOPS MACROECONOMIC ANALYSES AND PROJECTIONS WHICH HELP US UNDERSTAND AND PROJECT CASH DEMAND. AND FINALLY THE BOARD'S DIVISION OF FEDERAL RESERVE BANK OPERATIONS SUPPLIES FEDERAL INVESTIGATORY AGENCIES WITH DATA THAT ARE USED IN THEIR MONITORING AND INVESTIGATORY PROGRAMS.

IT IS IMPORTANT TO POINT OUT THAT WHILE THE FEDERAL RESERVE SYSTEM IS NOT AN INVESTIGATORY AGENCY AND THEREFORE CANNOT PROVIDE DETAILED EXPLANATIONS FOR HOW CASH SENT INTO CIRCULATION IS USED BY INDIVIDUALS, IT HAS COOPERATED WITH FEDERAL INVESTIGATORY AGENCIES TO THE FULLEST POSSIBLE EXTENT. DATA HAVE BEEN PROVIDED ON CURRENCY FLOWS INTO AND OUT OF RESERVE BANKS. IN ADDITION, GENERAL EXPLANATIONS THAT HELP ACCOUNT FOR SHIFTS IN THESE FLOWS HAVE ALSO BEEN PROVIDED. THESE DATA AND THE GENERAL EXPLANATIONS THEN CAN BE ANALYZED IN DETAIL BY THOSE FEDERAL ENTITIES CHARGED TO INVESTIGATE CRIMINAL ACTIVITIES.

HERE ARE A FEW EXAMPLES OF THE EXTENT OF THE ONGOING COOPERATION AND SUPPORT THAT THE FEDERAL RESERVE HAS PROVIDED FOR FEDERAL INVESTIGATIONS.

O CURRENCY FLOW REPORTS WERE PERIODICALLY SUPPLIED TO THE JOINT ECONOMIC COMMITTEE IN 1979 FOR ITS WORK ON ESTIMATING THE SIZE OF THE UNDERGROUND ECONOMY.

O REPORTS ON CURRENCY RECEIPTS FROM AND PAYMENTS TO DEPOSITORY INSTITUTIONS ARE SUPPLIED MONTHLY TO:

1. THE ADVISOR OF THE FINANCIAL CRIMES AND FRAUDS GROUP OF THE U.S. TREASURY, WASHINGTON, D.C.
2. THE DIRECTOR OF THE TREASURY FINANCIAL LAW ENFORCEMENT CENTER OF THE U.S. CUSTOMS IN WASHINGTON, D.C.
3. THE DRUG ENFORCEMENT AGENCY OFFICE IN MIAMI.
4. THE DRUG ENFORCEMENT AGENCY OFFICE IN WASHINGTON, D.C.
5. THE DEPARTMENT OF TRANSPORTATION OFFICE IN CAMBRIDGE, MASSACHUSETTS.

O WHEN REQUESTED, ARRANGEMENTS HAVE BEEN MADE FOR FEDERAL INVESTIGATORS TO VISIT RESERVE BANK OFFICES TO OBTAIN MORE DETAILED INFORMATION ABOUT TRENDS INDICATED IN THE REPORTS PROVIDED THEM BY THE FEDERAL RESERVE. FOR EXAMPLE, THE ADVISOR OF THE FINANCIAL CRIMES AND FRAUDS GROUP OF THE U.S. TREASURY HAS RECEIVED DETAILED INFORMATION FROM SEVERAL RESERVE BANKS AND SUBSEQUENTLY DEVELOPED SIGNIFICANT FINDINGS OF INTEREST TO ONGOING INVESTIGATIONS. ROUGHLY TEN VISITS OF THIS TYPE HAVE BEEN ARRANGED IN THE LAST TWO YEARS.

O SPECIAL REPORTS ON CASH FLOWS INTO AND OUT OF DEPOSITORY INSTITUTIONS IN THE MIAMI AND NEW ORLEANS RESERVE ZONES ARE SUPPLIED MONTHLY TO THE MIAMI AND NEW ORLEANS CUSTOMS OFFICES.

O THE FEDERAL RESERVE AND THE TREASURY ARE LOOKING AT THE FEASIBILITY OF ESTABLISHING A SYSTEMWIDE FEDERAL RESERVE AUTOMATION PROGRAM FOR PROVIDING CASH FLOW DATA TO APPROPRIATE

GOVERNMENT AGENCIES ON A MONTHLY SCHEDULE. THIS WOULD BE AN EXPANSION OF THE PILOT EFFORTS NOW UNDERWAY IN MIAMI AND NEW ORLEANS.

O IN ADDITION, SPECIAL ANTICRIME ASSISTANCE HAS BEEN PROVIDED TO OTHERS SUCH AS THE PRESIDENT'S COMMISSION ON ORGANIZED CRIME, THE IRS, THE DEA, THE CIA, AND THE FBI.

IN CLOSING, LET ME REAFFIRM THE FEDERAL RESERVE'S COMMITMENT TO ASSISTING FEDERAL AGENCIES THAT ARE CHARGED WITH THE VERY IMPORTANT TASK OF INVESTIGATING CURRENCY TRANSACTIONS RELATING TO CRIMINAL ACTIVITY.

**TESTIMONY OF THEODORE E. ALLISON, STAFF DIRECTOR, OFFICE OF THE STAFF DIRECTOR FOR FEDERAL RESERVE BANK ACTIVITIES, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM; HON. J. CHARLES PARTEE, MEMBER, BOARD OF GOVERNORS; AND WILLIAM TAYLOR, DIRECTOR, DIVISION OF BANKING SUPERVISION AND REGULATION**

Mr. PARTEE. I also would indicate I have Mr. William Taylor, director of our Division of Banking Supervision and Regulation, just on the chance that you have some questions about that area.

Chairman ST GERMAIN. I have a letter here from our friend Chairman Volcker. He talks about the wonderful job the Federal Reserve is doing. I don't know if you've had Federal representatives up here in the past few days, but we found that a lot of balls have been dropping here. He tells us about all the examinations, and so forth, that were performed and what a wonderful job we're doing. However, there are violations for failure to file transaction reports in the various districts. I have a question based on that. It was signed by Paul Volcker. I'm going to address the question to you.

During the last few weeks, it seems like every day there's a new bank that has miraculously found that it's violating the Bank Secrecy Act. I wonder if you could tell us now—well, you tell us in your letter how wonderful things are, how successful your examiners have been—tell me, amongst the violations cited in this letter dated April 2, 1985, do these include the violations by Chemical Bank? I guess I would address that to Mr. Taylor.

Mr. PARTEE. Yes, Mr. Taylor.

Chairman ST GERMAIN. The letter gives us a list of violations by district. For instance, in the New York district they cite 15 violations for failure to maintain exempt customer lists. Mr. Taylor?

Mr. TAYLOR. Mr. Chairman, they do not.

Chairman ST GERMAIN. Chemical is not included in this list?

Mr. TAYLOR. That's correct.

Chairman ST GERMAIN. How about Irving Trust?

Mr. TAYLOR. Not included.



Chairman ST GERMAIN. That means that the examiners went to Chemical, came from an A on their report card to where they should not have gotten an A?

Mr. TAYLOR. The violations that have been the subject of recent newspaper articles are not included in these numbers.

Chairman ST GERMAIN. Which means that the Federal examiners gave Chemical Bank an A where it should not have received an A.

Mr. TAYLOR. I don't know if we gave them an A, but we did not find these violations.

Chairman ST GERMAIN. I'm trying to put this in a language that people can understand. Irving Trust, are they included in the violations cited in the summary with the letter?

Mr. TAYLOR. To my knowledge, no.

Chairman ST GERMAIN. Manufacturers Hanover Trust?

Mr. TAYLOR. To my knowledge, they are not.

Chairman ST GERMAIN. Bank of New York?

Mr. TAYLOR. I'm not aware of those.

Chairman ST GERMAIN. I wanted to bring up the fact that the Bank of Boston had an Edge Act down in Miami.

Mr. TAYLOR. That's correct.

Chairman ST GERMAIN. They recently reported at their annual meeting \$773 million in unreported foreign bank transactions; isn't that correct, some of which was with the Bank of Haiti, some of it with Mexico, and a tiny bit with D'Aubuisson? Were those cited? Did the examiners from the Federal Reserve examine those institutions from Bank of Boston? I would assume not, since Bank of Boston made the announcement.

Mr. PARTEE. We've investigated this and I think you ought to know the answer.

Mr. TAYLOR. We last weekend called in officials from the Bank of Boston's Edge Act in Miami and——

Chairman ST GERMAIN. It's important that you tell me who you called and who you questioned, because I questioned some yesterday. I'm sure your staff has informed you that we had a colloquy with some people from Bank of Boston. We thought we might get an answer from you on this.

Mr. TAYLOR. We called in Mr. Kenneth B. Ingram, president of the Edge Act; Mr. Castillo, the vice president; Mr. Ignacio Rivera, the vice president; and Tom Cochrane, Sr., the audit officer. We are fundamentally complete, I think, in reviewing each and every transaction. We have a few where we're missing a few pieces of paper, but basically that investigation to date has shown that these transactions were indeed cash shipped by a central bank for credit to their account at the Bank of Boston. The Bank of Boston Edge in Miami never received the cash. Our supervising examiner down there, Ms. Lucy Labelle, has informed me that she has looked at these transactions and feels satisfied that the currency was indeed deposited at another U.S. bank.

Chairman ST GERMAIN. We all know that. That's nothing new. That U.S. bank was utilized because the Edge Act, the Bank of Boston in Miami, does not have a vault. So if you have a few million dollars, you don't leave it in the closet. If you were—like me renting a safety deposit box. The deposit was made with the Edge

Act affiliate of Bank of Boston, not Southeast First National Bank. Is that not correct, Mr. Taylor?

Mr. TAYLOR. The other domestic bank issued a deposit slip, if you will, for credit to the account of the Bank of Boston's Edge.

Chairman ST GERMAIN. That's right, but Bank of Boston, according to Mr. Dormer, the chap with the very unusual voice that was here yesterday, the deposit at the Bank of Boston's Edge Act affiliate was coded to indicate that it was a cash receipt. It was cash that was deposited.

Mr. TAYLOR. The deposit receipts? To our knowledge some are and some are not.

Chairman ST GERMAIN. Well, we'll have to pursue this one; won't we?

Mr. TAYLOR. Yes.

Chairman ST GERMAIN. Then was there a question with another affiliate with the Bank of Boston in New York? In Los Angeles or something. Did you look into that as well?

Mr. TAYLOR. We have not. We're not aware of a difficulty there.

Chairman ST GERMAIN. Not aware of the fact that there was no reporting made by that affiliate as well of cash transactions?

Mr. TAYLOR. We're not aware of that and will look into it immediately.

Chairman ST GERMAIN. Three transactions between the Bank of Boston, Bank of Los Angeles, and Banco Occidental of Mexico, during February, March 1981? Banco Occidental made three cash deposits to its account at the Bank of Boston affiliate in Los Angeles, which totaled \$587,700 in deposits. In all cases, the cash was deposited at American City Bank in Los Angeles. They have to use these other banks because they don't have vaults, but the Bank of Boston is the one that said, "We did wrong. We did wrong."

Mr. TAYLOR. I don't think that's the statement I read. They said they weren't sure whether they had to file the forms or not, but to cover all possible violations they filed the forms. That's what I read, at least.

Chairman ST GERMAIN. Bank of Boston? Filed when?

Mr. PARTEE. That was in Mr. Brown—the man from the Bank of Boston's statement to you, yes. I read it also. The problem is we're not certain in our minds that they were compelled to file the form in the case of the Miami Edge because they didn't receive cash, and the books in any event of the Edge did not show cash receipts. They showed another bank transaction.

Chairman ST GERMAIN. My counsel informs us that the counsel for the Bank of Boston said yes, indeed, they were responsible for filing the forms.

Mr. PARTEE. I often notice that lawyers can disagree.

Chairman ST GERMAIN. Mr. Taylor and Mr. Allison, in your statement, you point out the reasons for cash flows back and forth. I've seen those same reasons cited in other areas by other people. Getting back to the lawyers again, there's an expression that we use in drafting legislation or drafting legal documents, "that's by way of illustration and not limitation." Are you familiar with that expression?

Mr. ALLISON. Yes, Mr. Chairman.

Chairman ST GERMAIN. You gave some illustrations, but were they by way of limitation or by way of illustration?

Mr. ALLISON. By way of illustration, Mr. Chairman.

Chairman ST GERMAIN. We had a witness yesterday who said he wasn't too concerned about foreign bank cash transactions because he didn't feel that they involved money laundering. My question was, "Well, could you guarantee that?" He said "no."

With all this nice verbiage, you didn't mention anything about money laundering, but that doesn't mean that foreign banks cannot be used to launder money; correct?

Mr. ALLISON. I would certainly not say that foreign banks cannot be used.

Chairman ST GERMAIN. As a matter of fact, there have been instances where that has occurred, and is occurring; right?

Mr. ALLISON. I would certainly agree with you.

Mr. PARTEE. The problem, Mr. Chairman, is to find it. I think there's a lot of it but of course there are many other transactions too, and as you're aware, there are many reasons for having hordes of American currency abroad and it's very difficult because it's a foreign domicile to find out what the incentives were.

Chairman ST GERMAIN. I wanted to be certain that the Federal Reserve Board agrees with the Congress when it adopted the legislation. These are tools that are very valuable to law enforcement, Treasury, et cetera, and that's why we asked for this reporting.

Mr. PARTEE. We certainly agree that there's laundering abroad, probably more than domestically.

Chairman ST GERMAIN. Now, I think in 1977, someone at the Fed in Boston wrote to his superior, who then wrote to someone at the Fed in Washington saying there was concern about this sudden increase in the requirement for cash in the Boston area. Here it is, March 30, 1977. In July 1977, there's a correspondence between Mr. MacIntosh and Mr. Hamilton, exhibit No. 2. In the exhibits you should have before you, regarding the question of whether or not the bank involving \$100 bills should be discussed further within the Fed structure, particularly within the committee and subcommittee structure at the Federal Reserve Bank level—could you tell us, Mr. Allison, would you know whether or not that subject or that issue was ever brought up within that committee and subcommittee structure at the bank level? If so, what were the results?

Mr. ALLISON. Mr. Chairman, I was not involved in this area of the Board at the time so I have no firsthand knowledge. I have, however, looked for documentation from that subcommittee to determine whether it was formally discussed, and to the best of my knowledge it was not a matter of formal discussion. I think it was a matter of continuing informal discussion.

Chairman ST GERMAIN. We were not able to. I also assume you were not able to locate any further documentation, memorandums or what have you?

Mr. ALLISON. No; I was not.

Chairman ST GERMAIN. All we can conclude is that maybe some people talked about it. That was the sum total of it?

Mr. ALLISON. I think, Mr. Chairman, that people at the Board were more familiar with the area and with the issues and had previously thought more about those issues than, frankly, had the



people at the Boston Reserve Bank simply because this was new to the people at Boston. It wasn't new in the Federal Reserve System.

Chairman ST GERMAIN. Mr. Wylie.

Mr. WYLIE. Thank you, Mr. Chairman. We heard yesterday from the people from the Bank of Boston about transporting large amounts of \$20 bills through a Swiss bank, and I asked the specific question as to how this money was transported and they said they put it in a mail bag and somebody took it on a plane and carried it over.

In a letter here from Chairman Volcker it says, for example, cash transactions between domestic banks and a bank overseas are specifically exempt from the transportation reporting requirements when it is sent by common carrier. Common carrier does not include an international airline.

However, some banks have misinterpreted that to think that it does apply to international airlines, so apparently this is the way in some cases large amounts of money are being transported overseas; is that correct, Mr. Allison?

Mr. ALLISON. Yes; to the best of my knowledge they are shipped by airfreight.

Mr. PARTEE. That does seem to have been a source of the problem because in common parlance you think of an airline as a common carrier, but in terms of this particular report it did not qualify, so there was a legitimate misunderstanding on the point among bankers.

Mr. WYLIE. Is that misunderstanding widespread?

Mr. PARTEE. It seems to have been pretty widespread judging from the number of reports now surfacing on large foreign currency shipments to foreign banks.

Mr. WYLIE. Are they now reporting?

Mr. TAYLOR. We did a telephone survey a few weeks ago when this all broke and asked our Reserve banks to check with everyone to see the level of familiarity with this, and there was confusion. What we found out was that the majority of them are reported and that the question as it relates to the common carrier also extends to a feeling on the part of some banks that if they file the 4790 they need not file the 4789 if they are indeed the entity responsible for the transportation of the currency.

In other words, they did not use Brinks or a common carrier who would file the form. They must file both, and that has been a fairly common misunderstanding. And that's being corrected by these hearings.

Mr. WYLIE. What prevents a bank from collecting large amounts of \$20 bills as was the case in the Bank of Boston and send it over by private plane?

Then they are exempt from the reporting requirement, right?

Mr. TAYLOR. They must file the 4790 and the 4789. I think that Bob would agree with that.

Mr. STANKEY. That's true.

Mr. PARTEE. The \$20 bills were coming in mainly and the \$100 bills were going out, mainly. That was the nature of the traffic. You said shipping \$20 bills abroad. They shipped bigger bills abroad, and smaller bills were coming here.



Mr. WYLIE. That's neither here nor there. The point I'm making is that the banks should have been reporting if they were taking out large amounts of money in small bills; is that correct?

Mr. PARTEE. Large or small, that's right.

Mr. WYLIE. And they weren't. How do you go about enforcing that requirement?

Mr. PARTEE. Well, we have a common enforcement policy procedure that is specified to support this regulation. It was last reviewed in 1980, and as a matter of fact, on behalf of all of the agencies, I happened to transmit the revised form, the revised procedures, to Chairman St Germain in April 1981.

As I read those through now it seems to me that the scope indicated in the examinations did not clearly enough specify coverage of foreign banks and of currency windows of the foreign banks. The emphasis was on retail deposits. You hear all this reference to branch systems. The emphasis was on branch systems because the thought was that's where the illicit money would be moving.

I believe we need to improve on that examination procedure and I'm sure we'll do so promptly for all of the agencies including the savings and loans and credit unions, as well as the banks; and I think we'll capture it in the future.

Mr. WYLIE. Will there be a criminal penalty if they don't comply with it or should there be?

Mr. PARTEE. I don't know whether it's a criminal penalty or not. It's a civil money—

Mr. TAYLOR. At present I think both are available.

Mr. WYLIE. I think that's something we could look into further.

Mr. PARTEE. To the extent we found the violation we would then report that to the Treasury and the Treasury would have the question of followup action.

Mr. WYLIE. What action would you take if a violation like this was reported to you, Mr. Stankey?

Mr. STANKEY. I think the type of violation that the Governor is referring to is similar to what they found in the banks currently. They are talking about procedures, they are talking about procedures that the bank examiners are going to use. They are going to change those procedures and as a result of those changes they will be more apt to find the failure to report foreign transactions. And of course if they report any flagrant violations such as those that have come to light, I'm certain that the Treasury Department would consider civil penalties and very likely would refer them to the IRS for criminal investigation as well.

Mr. WYLIE. Isn't this the way the criminal element in our society builds itself into our banking system—just an observation—through this procedure of being able to transport large amounts of cash out of the country avoiding the reporting requirements, Mr. Allison?

Mr. ALLISON. I guess, Mr. Wylie, Mr. Congressman, that's one way that it happens, and it does.

Mr. WYLIE. Reflecting on your testimony which you've submitted for the record, I looked over it not in too careful detail, but glanced at it and it occurs to me that the authorities have an extremely difficult time at least in your State, a difficult job to know how to meet the legitimate needs of our economy, provide for cash flow

and provide for other financial services, and there is always a possibility that in accommodating legitimate needs you're also accommodating criminal elements.

Mr. ALLISON. That's exactly the issue we face and the way we've dealt with that is to make available——

Mr. WYLIE. What do we need to do to make our financial system less amenable to organized crime? I guess that's the bottom line. That's the difficult question we have been wrestling with for a few days.

Mr. ALLISON. For our part we have been making more and more information available to the enforcement people, the investigatory agencies, including Mr. Stankey. We have been working with them on making that information available more promptly, in more automated form. We make our internal records available where that summary information points to the need to go beyond it to look at individual bank-by-bank transactions. So better information is part of the answer. And we have been working on that.

Mr. WYLIE. Do we need stiffer criminal penalties?

Mr. PARTEE. I was going to say, Mr. Wylie, I think we have had some success in this area in connection with the strike force in Florida, which was a combined effort on the part of the agencies and the Treasury and the authorities there. It's a very great problem because it's like looking for a needle in a haystack. There's so many legitimate transactions and there are so few relatively in number that are illegitimate that it's hard to find them, in my view, by looking at a large number of forms. I'm inclined to think that the target investigations are likely to produce more results.

Chairman ST GERMAIN. Governor Partee, as we noted in going over the exhibits and the correspondence, particularly between the Fed in Boston and the Bank of Boston—from the action of people at the Bank of Boston, back when they decided to go into currency transactions with the Swiss banks on a bigger scale, it became obvious that there was a rather handsome profit in this.

Now we found out yesterday that on the transactions that were unreported, \$1.2 billion, there was a profit of approximately \$1 million. I assume that all the other banks that deal with foreign banks on these currency transactions are making money. There's a profit motive. We don't quarrel with that. However, the fact of the matter is that it's the Fed in Boston that had to obtain additional currency in \$100 bills. The Fed brought it to Boston to be available for the Bank of Boston to deal with the added business that they were going to conduct with the Swiss banks; correct?

Mr. PARTEE. Yes, they needed more bills.

Chairman ST GERMAIN. My point is this. The Fed is the one that's doing the bulk of the work. The Bank of Boston and Shawmut Bank were not even reporting the transactions. They kept their work to a minimum. I bet the Fed of Boston, if it were dealing directly with those Swiss banks, would remember to make all their reports and could make a profit; couldn't it?

Mr. PARTEE. We probably would not charge because, you see, this is a monetary policy function: providing the currency of the Nation to those who wish it.

Chairman ST GERMAIN. Couldn't you give it to muscular dystrophy or something like that?

Mr. PARTEE. We are carrying out a monetary function of the United States in providing the currency that the public demands.

Chairman ST GERMAIN. The public is not the American public, or the American taxpayer in this instance. It's in a foreign bank.

Mr. PARTEE. In the first instance the public was the Bank of Boston. The demands come through banks and then it goes abroad. We knew that it was going abroad, but it has long been a policy to provide the currency that the public demands.

I might point out that a piece of currency is the equivalent of U.S. Government debt, on which no interest is paid, and therefore there is a very large profit to the United States in issuing currency. And I think we felt that because of that, why, it's a procedure that we ought to do free.

Chairman ST GERMAIN. I'm not criticizing, I'm trying to find a way to make some money for you, Governor.

Mr. PARTEE. I understand that. We like to make money and turn it over to the Treasury.

Chairman ST GERMAIN. One last question. Shawmut, for instance, in dealing with Canadian banks, also was going to the Fed for Canadian money; isn't that correct?

Mr. ALLISON. No, I don't believe so.

Chairman ST GERMAIN. That's what we were told. Does the Fed have Canadian money?

Mr. PARTEE. You were talking about Canadian currency; is that correct? I don't believe the Boston Fed would deal in Canadian currency.

Chairman ST GERMAIN. This is from Mr. Hamill's testimony. "Shawmut purchases Canadian currency in lesser amounts from other banks and customers which it then sells to a Canadian bank."

Mr. ALLISON. Would you let us look into that, please, and we'll write you promptly.

Chairman ST GERMAIN. Do you think he's erroneous?

Mr. ALLISON. To the best of my knowledge, we do not even in small amounts, handle Canadian currency.

Chairman ST GERMAIN. That's why the staff questioned that.

[In response to the request of Chairman St Germain, the following information was received for the record from Mr. Allison:]





BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON, D. C. 20551

OFFICE OF THE STAFF DIRECTOR  
FOR FEDERAL RESERVE BANK ACTIVITIES

April 11, 1985

The Honorable Fernand J. St Germain  
Chairman  
Committee on Banking, Finance, and  
Urban Affairs  
House of Representatives  
Washington, D.C. 20515

Dear Mr. Chairman:

During your Subcommittee's hearings on compliance with the Bank Secrecy Act on April 5, 1985, you raised a question regarding the Federal Reserve Bank of Boston's handling of Canadian cash.

Until last year, the Boston Reserve Bank accepted deposits of Canadian currency and coin (in relatively small amounts) as a service to financial institutions. These deposits were consolidated by the Reserve Bank and sold by competitive bidding to a commercial bank handling foreign currencies; adjusting entries were then made to the depositing banks' accounts. This facilitated cash operations for depositing institutions since both U.S. and Canadian deposits could be sent to the Federal Reserve.

This procedure was discontinued last year when the value of the service was judged not to be worth its cost. Consequently, the Reserve Bank is now handling only small amounts of Canadian notes and coins that occasionally turn up in deposits of U.S. currency.

I hope this clarifies our response to your inquiry.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "Theodore E. Allison".

Theodore E. Allison  
Staff Director



Mr. VENTO. Gentlemen, I note your comment in responding to Mr. Wylie's question concerning the workability of the CTR reporting requirements, and wouldn't you think that it would be a good idea to leave the law to work before we completely dispose of it at this particular point? In other words, give it a chance to see how it works before we completely condemn it as being burdensome in terms of paperwork and so forth?

Mr. PARTEE. I hesitated to make that response because I was fearful that someone might think that that meant that I didn't think it was a worthwhile effort, and I have no judgment as to whether it's worthwhile or not. My simple point is, in response to Mr. Wylie, that we have a great many transactions, most of which are legitimate, and it's going to be difficult to find the illegitimate ones from a standard report. I don't mean you shouldn't have the report. I think we ought to have the report, but he asked how could we get some results, and I think it's by strike forces, targeted efforts.

Mr. VENTO. I don't want to put words in Mr. Wylie's mouth, but the word was "targeting," and the problem is that it's fine to target, to look at certain areas of problems that you send along. I commend you for cooperating with law enforcement agencies and others that have that role in terms of sending along the reports in terms of cash transactions and the amount of money put out in Miami and so forth, and with the Drug Enforcement Agency and transportation. But the essence, once you get that, you have this gross figure; you have to look at it. How can you target it unless you have a definition of the constituent parts of what occurred, and the CTR is one way to dissect that and look at that and when you have it you have some substance.

And even the 1972 law and again in the law that regulated or promulgated in 1978 and the regulations promulgated in 1980 in which you apparently participated, the substance of one of the key provisions in that is the assumption that financial institutions will also follow not just the specifics in terms of exemptions and so forth but the reasonableness of what goes on.

In other words, there is a responsibility on the part of financial institutions to use a test in terms of reasonableness, and then if they feel there's reason or any suspicion to attempt to develop that type of record and maintain it and do that type of reporting, irrespective of whether or not there are exemptions. If people in our society as such, in positions of responsibility, if all we're going to depend upon is sort of the police officer role or regulatory role in terms of doing that job, then as a society we have big problems.

That's my speech from the chairman's chair today, and I don't imply that anyone here necessarily disagrees with that, but I'm concerned and I'm reacting to the impression that I got that, if there are better ways, then let's develop them, but let's not completely remove the responsibility from the financial institutions that is implicit in this particular provision.

It isn't clear to me that this necessarily is going to cause the avalanche of problems with computers and other means. We can indeed do a job that's adequate whether the exemption should be \$10 or \$15. What it should be, I don't know, but clearly until we get a better understanding, let's try the model we have and let it

work until it's demonstrated that there's really a better means to address it. It's cumbersome in the final analysis, but I don't know what other tools we have available.

Mr. PARTEE. I should clarify because of your statement, Mr. Chairman, I did not mean that this type of targeted investigation should be a substitute for the report, but a supplement to the report.

Mr. VENTO. You have to have the fundamental data base to do the type of target work that we're talking about. Nobody is talking about doing the entire transaction, but you have to have the data base and the problem here is that that data base is not being developed; right, Mr. Stankey?

Mr. STANKEY. The reports in fact are computerized and we're thinking along the lines that you've outlined and that's what we intend to do, analyze the data base and identify.

Mr. VENTO. If you haven't got compliance with the law you haven't got a data base. There was an impression I had that it was not computerized. Apparently I misspoke.

Mr. STANKEY. The reports are computerized. The exempts lists are not and we would like to——

Mr. VENTO. I would think that that would be important. Especially given—one thing between the Treasury Department and Federal Reserve Board is—Mr. Stankey, I raised the question with the Comptroller of the Currency and the same question was raised with the Federal Reserve Board. Now that is, what did you do to respond to Mr. Stankey's letter in, I guess, May or June 1982?

Mr. PARTEE. Making Massachusetts the target of an investigation?

Mr. TAYLOR. We received Mr. Stankey's letter on the 21st of September and we began inspections of the two banks cited in his letter in the latter part of 1982 beginning in November, and we reviewed those banks and did not find exception, and we responded back to Mr. Stankey on that question in January 1983.

Mr. VENTO. In retrospect, was that accurate? In retrospect, was your examination accurate?

Mr. TAYLOR. We're not aware of any inaccuracies at this time in the two we looked at.

Mr. VENTO. Didn't the letter imply that there also seemed to be a general noncompliance with the law in Massachusetts, as I remember reading the letter?

Mr. TAYLOR. That's correct. But I would point out that the institutions for which we were responsible when we reviewed them we did not find any indication of substantive violations.

Mr. VENTO. Was your action in that instance only keyed to an examination or was it also keyed to a renotification of your member banks or those you had responsibility for regulation of at that point? Was it also keyed to an informational basis to them in terms of the fact that there's likely some problem here?

Mr. TAYLOR. We did not make a general mailing to our State member banks regarding Mr. Stankey's letter or its contents. We did however go to the two State member institutions and in addition to the examination we also sat with them and apprised them of the concern and apprised them of the need to comply.

I might add that we take this responsibility quite seriously and we readily admit to the needed improvements, and certainly the two areas most needing improvement, that being the cash control center and the foreign coverage. It's essential that these areas be beefed up and we're taking steps to see that that's done. We think that on balance in the last four to five years, that the attention that has been paid to currency reporting has been a great help, I think, in deterring this criminal element. Obviously we have to do more and we plan to.

Mr. WYLIE. Mr. Allison, on pages 4 and 5 of your testimony you state that the Federal Reserve has a pilot program underway in Miami and New Orleans at the present time with respect to an automated program which would provide data for cash flow to appropriate company agencies on a monthly basis. Would that also include foreign transactions?

Mr. ALLISON. No; that does not separately identify foreign transactions. We don't really know in point of fact where an amount of currency deposited with us originates unless we ask. And of course we don't know where currency goes as a general rule unless we ask. These reports that are referred to here are strictly off our generalized cash automated handling system.

I might say that of course the foreign transactions, while important, are not the only thing that Mr. Stankey and the other enforcement people are interested in. It's a part of the problem, but certainly not the only problem.

Mr. WYLIE. Does that help you, Mr. Stankey?

Mr. STANKEY. I'm not exactly certain which area that we're talking about, but some of the information that the Federal Reserve provides us has to do with foreign transactions. They routinely send us reports on shipments coming from Panama and going to Panama. So there is in addition to—well, both currency being received in the United States and currency being shipped from the United States to Panama. In addition to that of course they provide us with a monthly report of activity in each of the 37 Federal Reserve offices, which we routinely analyze to determine whether there are any new trends.

Mr. ALLISON. I was interpreting the question quite narrowly.

Mr. WYLIE. What information would this provide that's not now being provided?

Mr. ALLISON. It provides currency information in a regularized format, more promptly, bank by bank, that is reserve office by reserve office, denomination by denomination. It's all the information that's potentially available now. Always regularly available and momentarily.

Mr. STANKEY. I believe it's the information system reporting that we devised and the board was kind enough to provide for us going back to 1979. That's the overall 37-office report. The information on Panama is really not available from any other source in the same way, so it is unique. The Fed is not required to file 4789s under the present regulations. They are exempted and consequently we are not aware of their international transactions unless one of the common carriers or someone else files a 4790 or unless the Fed voluntarily provides us with that information.



Mr. VENTO. Is the Fed dealing with other central banks? Is that the point, Mr. Partee? They're dealing with other central banks and this is under the monetary policy role, as a consequence. But that then and of itself, I mean, if those central banks have procedures which are not as rigorous as those which we're talking about someday putting in place here could, in fact, provide the same opportunity; is that right?

Mr. PARTEE. Well, the central bank probably would have received the U.S. currency from depositaries within its countries rather than directly and then would have sent them into us. So that it would be one point removed from a foreign commercial bank sending of currencies.

Mr. ALLISON. Mr. Chairman, that is not at all a regular source of currency, of U.S. currency, coming into this country. The relatively few transactions that we have in cash with foreign central banks are very small in amount, and as a rule, very limited.

Mr. VENTO. Regular, but once in a while you may need it as a tool, I guess, and therefore, would not want to make it public, I expect.

Mr. STANKEY. You heard the response to my question with regards to enforcement problems in the Massachusetts area. What did you anticipate this letter would do? Would you think this response is adequate that occurred here in the case of the Federal Reserve Board? Obviously, in the case of the Comptroller of the Currency, you did not think it was adequate. I think that's maybe the understatement of the year. They don't think it's adequate either. So it's easy enough to agree with the Comptroller's office. What about the Federal Reserve Board?

Mr. STANKEY. We are pleased that they were prompt in their response in examining those banks, and we assume that they would talk to their examiners and try to get more emphasis. Personally, I thought that it was adequate.

Mr. VENTO. The names of the institutions that had been indicated, of course, have not been made public, is my understanding. That's correct, isn't it, Mr. Partee? The two institutions that were highlighted by the Treasury have not been made public with respect to this issue in the September 1983 matter.

Mr. PARTEE. There would only be two State member banks in Massachusetts, I take it, and so there is no confidentiality about who they are. Do you have their names, Bill?

Mr. TAYLOR. I do have the names.

Mr. VENTO. I don't require it, but—I mean, I understand that you have communicated this to the committee already, and I don't require that as a response to my question. I am just pointing out that it has not been made a part of the public record.

Mr. TAYLOR. That's correct.

Mr. VENTO. OK. I don't need it. We have the information.

Mr. PARTEE. It would be quite easy to get that.

Mr. VENTO. Mr. Partee, in your opening comments to questions of the chairman, you indicated, of course, that you had shared with us the nature of the explanation to your members concerning compliance with the CRT regulations and a caveat that you felt that it did not emphasize foreign banking transactions adequately. I guess I hadn't seen that. Was that in compliance with the law that you



were sharing that with the committee, or was that on a volunteer basis? I'm curious.

Mr. PARTEE. Well, this goes back some distance. I thought perhaps I would jog the Chairman's memory.

Mr. VENTO. Well, I understand what the reasons for it was.

Mr. PARTEE. The Examination Council, of which I happened to be chairman at the time this letter was sent, developed a standard uniform procedure for examination of financial institutions in furtherance of the Treasury regulations and the Bank Secrecy Act, and on April 14, 1981, I sent him a copy of the procedures, indicated that they were being put into place, indicated that they had been agreed to by each of the regulatory agencies, and that they had been developed in consultation with the Treasury and the GAO. Now I look back at them in the light of everything that's happened, and I see, I believe, that those procedures, which were very seriously gone over by everybody involved, did not give enough emphasis, in terms of scope, to the possible operations of foreign windows or currency windows, specialized currency windows and to transactions with foreign banks.

So it is a scope problem in the specifications to the examiners of all of our agencies that I think needs to be reviewed and changed.

Mr. VENTO. It wasn't in error? The regulations and the instructions to examiners were not in error.

Mr. PARTEE. It's not in error. It's just that the emphasis that should have been given to this wasn't there.

Mr. VENTO. The examiners are expected to do more than just look at guidelines. They are expected on their side to know what the law is. You're not suggesting in any way that any of the regulatory agencies that were participating in that were unaware of what the law is or the rules and regulations, are you, Mr. ParTEE?

Mr. PARTEE. No. No, not at all. I also made the point that I think that our emphasis at the time was on retail business. Retail business, and that's why this lack of emphasis existed.

Mr. VENTO. Well, I just wanted to try and provide a little more of a picture to that. We didn't want to be responsible here by not reading your letter or not understanding, and so I just wanted to make certain that you did understand what the law is and that the other regulators understood what it was, and clearly, if that were the case, we would have a serious problem then, because we wouldn't want to give any comfort to those that necessarily didn't. Although I think in 20-20 hindsight, it's my feeling that—and I think some of the testimony here indicates that financial institutions have been bombarded with information. There were certainly questions that should have been raised by them concerning the compliance.

The gentleman from New York, Mr. Wortley.

Mr. WORTLEY. Thanks, Mr. Chairman.

Mr. ParTEE, does the Fed consider money laundering to be a serious matter?

Mr. PARTEE. Yes, we do.

Mr. WORTLEY. In international finance, as well as domestic?

Mr. PARTEE. Well, I feel quite certain it goes on abroad as well as within the country. "In international finance," I don't quite understand your term of reference there.

Mr. WORTLEY. Well, in international banking.

Mr. PARTEE. Well, I think, yes, I think it goes on abroad.

Mr. WORTLEY. Why don't the central bankers ever talk about money laundering when they get together?

Mr. PARTEE. Well, I really can't answer that question, Mr. Wortley.

Mr. WORTLEY. Do you think it would be a good idea if maybe when they did get together, that that was one of the items on the agenda?

Mr. PARTEE. Yes, it could be an item on the agenda. I guess I have to tell you that there is not any place where all the central bankers get together. That is, a lot of the offshore central banks like, say, Haiti, which was mentioned earlier, are not members of any group that I'm aware of where this could be an agenda topic. The major country central bankers get together periodically in Basel, Switzerland, and it could be a subject for the supervisory group of that Basel committee, but that would only be a dozen or so of the central banks.

Mr. WORTLEY. Because we're not members of the Bank of International Settlements.

Mr. PARTEE. That's the Basel group that I am speaking of; yes.

Mr. WORTLEY. But we do participate in those meetings?

Mr. PARTEE. Yes; that's right.

Mr. WORTLEY. Just recently I was over in Western Europe and met with the central bankers in both Switzerland, as well as in Austria. And they all acknowledged the fact that money laundering was a source of serious concern to them, but they never bothered to discuss it.

Mr. PARTEE. Well, it could very well be a subject for the agenda of the Special Subcommittee on Supervision of the Basel group. That is, the Cook Committee. I don't know whether they would accept the agenda topic or not, but I'll ask that it be suggested as an agenda topic for a forthcoming meeting of that group.

Mr. WORTLEY. Mr. Wallich is the one who usually attends those meetings in an observer status?

Mr. PARTEE. He attends the meetings of the central bankers. The committee I am referring to, the Cook Committee, is attended by chiefs of supervision of the various countries, and so it would be Mr. Taylor or his alternate that would go and also the Chief Examiner of the Comptroller of the Currency and like people from the other countries, you see.

Mr. WORTLEY. Do you think you could bring the subject up to Chairman Volcker and—

Mr. PARTEE. Well, as I say, I think we can suggest to the Chairman of the Committee, Peter Cook of the Bank of England, that it be an agenda item. I can't guarantee that it will be accepted, but we can certainly suggest that it be on the agenda.

Mr. WORTLEY. Could you keep me posted on that?

Mr. PARTEE. All right. All right.

Mr. WORTLEY. Thank you. Mr. Allison, it is my understanding that cashier checks are omitted from reporting requirements, and the Justice Department has indicated that money launderers, however, use a great deal of cashier's checks. They stipulated all the good reasons why, when they were here yesterday. Is there any

reason why we shouldn't include cashier's checks in the reporting system?

Mr. ALLISON. Well, I believe I'd prefer to defer on that question to the enforcement agencies. In the first place, there are a lot of cashier's checks written, so it would add to the paperwork burden. In the second place, cashier's checks do, of course, contain a paper trail by their nature. That is, by their nature, they contain a record of who bought the check and where it was endorsed, by whom it was endorsed, and so on.

Mr. WORTLEY. Maybe Mr. Stankey would like to comment on that one.

Mr. STANKEY. Mr. Partee, did you want to add to that?

Mr. PARTEE. No.

Mr. WORTLEY. The buck's stopping with you, Mr. Stankey. [Laughter.]

Mr. STANKEY. Well, I heard him comment, you know, "It's a lot of stuff, a lot of transactions," and of course, that is true.

As far as the enforcement people are concerned, naturally, the more information that you have, the more opportunity you have to detect unusual transactions and develop leads. So it is a question of balancing the benefits to be derived from having that kind of information against the burden imposed on legitimate commerce. And I think the Bank Secrecy Act has a prohibition against imposing undue burden on commerce, and that has been something that we've paid particular attention to through the years, and may have been our salvation when the Supreme Court case was heard back in 1973-74. So, you know, we tend to be maybe a little bit conservative when we get outside the realm of currency.

Mr. WORTLEY. The gravity of the matter, though, of illegal drugs and consequences of those illegal drugs and destroying the fabric of society, would certainly merit some extra effort in the area of enforcement.

Mr. STANKEY. Well, it certainly could be looked at. It's not so much an extra effort in the area of enforcement, but from my knowledge of the banking business and also other commercial international businesses, it would probably impose a sizable burden on the industry.

Mr. PARTEE. Order of magnitude, Mr. Wortley, I would guess that there must be 100 million cashier's checks above \$10,000 a year. They're very common, in real estate transactions, in transporting cash from one place to another. They're used by businessmen and the common public in their ordinary business involving larger transactions. I believe I heard earlier that there have been 700,000 of these CTR forms filed last year. You would be adding to that, you see, since you wouldn't be able to distinguish, I suppose, 100 million more from the reporting of the cashier's checks.

Mr. STANKEY. Mr. Wortley, if I could just add one more thing, and that is, as you may know, we are developing or finalizing reporting regulations that would permit Treasury to require selective reporting on international transactions involving cashier's checks and regular checks, as well, so that we will have an opportunity to intercept some of these cashier's checks that are flowing in international commerce, but on a selected, limited period of time basis, rather than trying to collect the entire universe.



Mr. WORTLEY. Are you saying this is going to be a spot check sort of a situation?

Mr. STANKEY. Right.

Mr. WORTLEY. Is this going to involve all banks?

Mr. STANKEY. No.

Mr. WORTLEY. Suspected banks?

Mr. STANKEY. Well, not suspected banks, necessarily, but, you know, we might decide that we want to monitor Panama.

Mr. WORTLEY. Not a bad idea. [Laughter.]

Mr. STANKEY. And so we would ask the banks in the United States—

Mr. WORTLEY. Would you go for the Grand Caymans and the Bahamas, while you're at it? [Laughter.]

Mr. STANKEY. Well, yes, one at a time perhaps. We would notify the banks that do business with those countries that for a period of 2 weeks, that they should provide us with copies of all their transactions, both by wire and by cashier's check.

Mr. WORTLEY. This is a program that you intend to implement or are doing now?

Mr. STANKEY. No, the proposed rulemaking was issued last April, and I think that the final rule should be issued in the not-to-distant future, weeks, I would say.

Mr. WORTLEY. We will look forward with great expectation to the results of that program.

Mr. Allison, do you think it would be useful to raise the penalties that bank officials face to encourage them to enforce compliance within their own institutions? We've seen some pretty sloppy procedures here in the last couple of days, and everybody kind of passes the buck.

Mr. ALLISON. May I pass the buck? [Laughter.]

Mr. WORTLEY. No.

Mr. STANKEY. It is more legitimately answered, I think, as a bank examination matter.

Mr. WORTLEY. I'm waiting, Mr. Taylor.

Mr. TAYLOR. Should there be stiff penalties for those who knowingly violate the currency reporting regulations? My answer would be clearly yes, and I think they should be strong, quick and severe.

Now I must add, though, that if you look at the forms and read through the testimony of the past 2 days, you find that there is an awful lot of very legitimate confusion regarding certain issues related to the form. It is a very difficult subject to deal with. I think Treasury has tried to deal with it well, as have we. As we continue to find deficiencies, we have to correct the deficiencies while maintaining our resolve to assure conformance with the regulation.

Mr. WORTLEY. I think yesterday we witnessed a lot of arrogance on the part of the people who sat at that table and testified, and I think there are a few of us up here who would like to have seen more severe penalties meted out. If people are just going to say, "Well, the heck with this. It's not my responsibility if some underling"—everybody shirks their responsibilities, or so it seemed yesterday from the crowd we had in this room. I don't know whether that is the way it is in all financial institutions or not, but certainly the officers of the First National Bank of Boston demonstrated callous disregard and arrogance, almost contemptuous.



How do we get around those things? How do we get to those people and make them more responsible?

Mr. TAYLOR. I guess I would add that every time these hearings and others that have been held—not that I spent all the time at the hearings—we have a better awareness by more bankers and, in general, find fewer of them absent the knowledge they need to assure conformance.

So it is constructive. We have  $x$  amount of resources. There is a lot of competition for those resources these days, but not for a minute do we deny that we need to do our part in enforcing these regulations. We take it seriously. We take our shortcomings with great regret, and we're going to do better. And that's what we can do.

Mr. WORTLEY. Were you pleased with the reaction of the bank officers that we have seen in recent days?

Mr. TAYLOR. I was not here yesterday. This morning, in listening to the people from Shawmut, I didn't note arrogance.

Mr. WORTLEY. You should have been here yesterday.

Mr. Chairman, I thank you very much for your patience in letting me run over my 5 minutes, and I thank the witnesses.

Mr. VENTO. I thank the witnesses for their patience in waiting and for their testimony today.

The meeting is recessed to the call of the Chair.

[Whereupon, at approximately 1:35 p.m., the hearing was adjourned to reconvene at the call of the Chair.]

[The following letters were received by the subcommittee from Hon. Paul Volcker, Chairman, Federal Reserve Board, regarding information requested from Chairman St Germain:]



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON, D. C. 20551

April 2, 1985

PAUL A. VOLCKER  
CHAIRMAN

The Honorable Fernand J. St Germain  
Chairman  
Committee on Banking, Finance  
and Urban Affairs  
House of Representatives  
Washington, D.C. 20515

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Banking, Finance & Urban Affairs Committee

Dear Chairman St Germain:

As requested in your letter of March 4, I am pleased to provide you with information regarding your Committee's inquiry into noncompliance with the Bank Secrecy Act by financial institutions under our direct supervisory authority.

Between 1979 and 1984, the Federal Reserve System conducted 5,771 examinations of banks and Edge Act Corporations in which 539 instances of noncompliance with the reporting regulations of the Bank Secrecy Act were detected and noted in reports of examination. A summary of the types of reporting violations is contained in the enclosed table.

The primary reasons given by banks for these occurrences were gaps noted in their own internal procedures and misinterpretation of the regulations. For example, cash transactions between domestic banks are exempt from reporting requirements and the transmitting of cash from a domestic bank to a bank overseas is specifically exempt from transportation reporting requirements when it is sent by "common carrier" or the Postal Service. Treasury officials indicate that the definition of common carrier does not include carriers such as international airlines. Some banks also misinterpreted transportation-related exemptions to imply exemption from transportation reporting requirements. Specifically, banks believed the reporting requirements of Sections 103.22 and 103.23 were mutually exclusive and failed to make both reports under certain circumstances as required by the regulations.

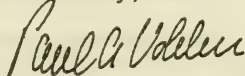
As the Committee is aware, the Board of Governors uses formal supervisory actions (such as cease and desist orders and written agreements) to address unsafe or unsound banking practices and violations of law or regulation. These actions primarily address the financial condition of the banks; however, when an examination of a problem bank also reveals noncompliance with the Bank Secrecy Act and an order or agreement is issued or executed, it includes provision, inter alia, prohibiting any

further violations of the Bank Secrecy Act and requires the establishment of appropriate affirmative compliance procedures to ensure future conformity with all legal requirements. This applies to Edge Corporations as well. Our records indicate that between 1980 and 1984, the Board of Governors issued orders against or executed agreements with 67 state member banks, and in approximately 15 percent of those actions, noncompliance with the currency transaction reporting requirements were addressed. (Records regarding this type of information were not maintained prior to 1980.)

We submit quarterly reports to the U.S. Department of the Treasury with detailed information regarding violations noted in the reports of examination. In addition, we assist the Treasury in special investigations of such violations. Actual assessment of civil or criminal penalties is determined by the Treasury. The Board of Governors has no authority to issue civil or criminal penalties against financial institutions in violation of the Bank Secrecy Act. We trust that you can obtain the information you requested on the penalties imposed on financial institutions from the U.S. Department of Treasury.

In light of recent developments, we intend to review carefully the uniform procedures previously agreed to for examinations in this area with the objective of strengthening the procedures.

Sincerely,



Enclosure

Summary of the Types of Reporting Violations

<u>District</u>	<u>Failure to Maintain Exempt Customer List</u>	<u>Failure to File Transaction Report (Form 4789) With IRS</u>	<u>Failure to File Transportation Report (Form 4790) With Customs Service</u>	<u>Total Number of Violations</u>
Atlanta	67	48	4	119
Cleveland	61	31	0	92
Dallas	34	24	1	59
New York	15	43	0	58
Minneapolis	30	7	4	41
Kansas City	31	7	3	41
San Francisco	17	17	1	35
Richmond	19	14	0	33
Boston	15	8	1	24
Chicago	14	6	2	22
Philadelphia	5	4	2	11
St. Louis	4	0	0	4
Total	312	209	18	539





BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON, D. C. 20551

April 16, 1985

PAUL A. VOLCKER  
CHAIRMAN

The Honorable Fernand J. St Germain  
Chairman  
Subcommittee on Financial Institutions  
Supervision, Regulation and Insurance  
Committee on Banking, Finance and  
Urban Affairs  
House of Representatives  
Washington, D.C. 20515

Dear Chairman St Germain:

I am pleased to provide you with information regarding the Subcommittee's inquiry into noncompliance with the Bank Secrecy Act (the Act) by financial institutions under our direct supervisory authority.

To date, the following five institutions under our supervision have publicly disclosed instances of noncompliance with the Act:

The Bank of New York  
New York, New York

Chemical Bank  
New York, New York

Irving Trust Company  
New York, New York

Manufacturers Hanover Trust Company  
New York, New York

Bank of Boston International South  
Miami, Florida

Enclosed are summaries of the reported violations at each institution, including the nature of the violations and the number and dollar amount of the transactions involved. I understand that the respective financial institutions have subsequently filed the appropriate forms required by the Act.

You have also requested information on institutions that have brought instances of noncompliance with the Act to our attention, but which have not made a public disclosure of the noncompliance. Three financial institutions under our direct

The Honorable Fernand J. St Germain  
Page Two

supervisory authority have voluntarily reported instances of noncompliance with the Act to the Federal Reserve.

In the first instance, a U.S. bank delivered Canadian currency to a bank in Canada for conversion to U.S. dollars but did not complete the required Currency Transaction Reports. Between January 1983 and January 1985, there were seven transactions totaling \$147,409.95.

The second instance of noncompliance involves currency shipments to a Canadian bank. The manager of the U.S. bank's cash control center had been reporting the transactions to Customs through a letter rather than the form 4790.

The third institution failed to file the required forms on two occasions. The two transactions occurred since December 1984, and involved the exchange of Canadian currency with a Canadian correspondent bank.

Full information on these situations has been made available to the Treasury Department. We do not, however, believe it would be appropriate to provide further information at this time on instances of noncompliance. We are concerned that disclosure of additional data could jeopardize possible civil and/or criminal proceedings that could arise out of the facts reported to us. We are also concerned that the usefulness of the examination process as a means of obtaining full disclosure of all information relevant to a bank's condition would be seriously impaired by premature disclosure of the information on violations that was voluntarily revealed to the Board's examiners.

The Subcommittee has also requested access to examination reports and relevant workpapers of the institutions that have publicly disclosed violations of the Act. In accordance with this request, we would be able to provide your staff with access to these documents on a confidential basis.

Sincerely,



Enclosure

## SUMMARIES OF REPORTED VIOLATIONS

<u>Institution</u>	<u>Contact Date</u>
The Bank of New York New York, New York	Beginning February 25

The bank's internal auditors found 12 transaction, totaling \$1.5 million, in which the bank failed to report the transactions. The transactions involved two foreign banks.

<u>Institution</u>	<u>Contact Date</u>
Chemical Bank New York, New York	Beginning February 25

Since 1980, the bank failed to report 857 transactions amounting to \$25.9 million. Most of the unreported transactions, 825 transactions totaling \$23.3 million, occurred when Chemical bought or sold foreign exchange from established U.S. foreign exchange dealers. In addition, nine transactions totaling \$2 million were shipped between Chemical and two foreign banks. Another 22 transactions totaling \$500,000 were shipped with a U.S. foreign exchange trading firm. A smaller cash transfer of \$46,000 involved the shipment of Canadian coins to a Canadian bank from the New York City Transit Authority. In addition, Chemical reported to the Treasury an unrelated set of transactions involving currency brought into the U.S. from abroad by a foreign citizen.

## SUMMARIES OF REPORTED VIOLATIONS

<u>Institution</u>	<u>Contact Date</u>
Irving Trust Company New York, New York	Beginning February 25
<p>Since 1980, Irving Trust failed to report 1,659 currency transactions with 38 foreign banks, totaling \$292.6 million. The transactions involved \$139 million in purchases and \$153.6 million in sales. The bank indicated that its internal procedures for the inter-bank postal service transactions were not followed.</p>	

<u>Institution</u>	<u>Contact Date</u>
Manufacturers Hanover Trust Company New York, New York	Beginning February 25
<p>The bank said that since 1980 it failed to file required reports on 1,400 international transactions involving \$140 million. Virtually all these transactions were incoming cash deposits from banks, generally in major overseas tourist areas.</p>	

<u>Institution</u>	<u>Contact Date</u>
Bank of Boston International South Miami, Florida	Beginning March 30
<p>Since July, 1980, the Edge Act failed to file required reports for 59 bank-to-bank transactions between the Central Bank of Haiti and the Miami Edge corporation. The previously unreported transactions at the Edge corporation amounted to approximately \$73 million.</p>	









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